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# policy dialogue brief

Critical thinking from Stanley Foundation Conferences

September 13-15, 2012

Shanghai, South Korea



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This brief summary was drafted during the conference by rapporteur Jeong-ae Choi and edited by the organizers of the conference. The points in the summary do not necessarily reflect the views of the sponsoring organizations or particular conference participants, but rather draw upon the event's major strands of discussion. Participants neither reviewed nor approved this document.

## Shifting Coalitions and Potential Blocs for Asian and Pacific Leadership in the G-20

### Discussion Summary

This was the third annual workshop in Shanghai hosted by the Shanghai Institutes for International Studies (SIIS) in collaboration with the Stanley Foundation and the Global Summitry Project at the Munk School of Global Affairs, University of Toronto. This year, the original partners were joined by the Korea Development Institute. For the first time, the Shanghai conference included officials and/or experts from all the G-20 Asia and Pacific countries, and this year there also was representation from Cambodia and Singapore, and an official from the Trilateral Cooperation Secretariat.

The partner organizations want to identify the key ingredients for more efficient, effective, and “forward-looking” global governance. Now with the benefit of four years and seven summits since the first meeting of G-20 leaders in 2008, we can start making preliminary assessments of the G-20 summits’ record in spurring international cooperation. The G-20 includes most of the key players that must be involved to make headway on the major 21st-century global governance challenges. After four years, the G-20 summit process appears to be making progress, moving from declaratory statements to incremental implementation and from general principles to specific actions. But the question remains whether this progress is sufficient.

This year’s Shanghai conference consisted of panels that examined:

- The critical bilateral relationship between the United States and China.
- The trilateral summits of China-Japan-Republic of Korea (ROK).
- The Trans-Pacific Partnership (TPP), a trade and investment agreement that is currently being negotiated by a number of countries in the Asia-Pacific region.
- The traditional G-7 powers.
- The BRICS.
- Assessments from Mexican representatives and experts on the G-20 Summit last June in Los Cabos, Mexico, and from Russian experts on the prospects for the St. Petersburg G-20 Summit set for September 2013.

## The US-China Relationship

The US-China relationship is pivotal for regional and global affairs. Wide-swinging fluctuations between fruitful collaboration and engagement, and then periods of rivalry and tension, have made it difficult for officials and other experts to diagnose the state of relations.

Since 2010, this volatility has been accentuated by a presumed new “assertiveness” by China, prompting concern over potential repercussions not only within the Asia-Pacific region but extending to multilateral institutions such as the G-20. Yet conference participants expressed confidence that the United States and China ultimately can manage their economic relations, but only by dint of diligent and steady work. Participants were concerned over the political-security dimension of the relationship—particularly given the trouble in even maintaining a continuous and substantial military-to-military security dialogue. Still, the progress on economic cooperation is encouraging, with a notable acceptance of greater shared leadership by the Chinese compared with just a few years ago.

China does, however, feel upset by increasing protectionist measures against its investment in the US market and also some remaining discomfort in the G-20, where it finds itself being criticized. China can still be defensive about criticism of its economic policies. The converse is also possible: US expectation that it will get its way in this multilateral setting.

Therefore, challenges remain for US-China relations at the G-20. For instance, how do the two economically intertwined powers promote growth and continue bringing themselves into sustainable macroeconomic balance? Then, how do these two largest economies promote global economic, monetary, and financial reform in the G-20 in the immediate post-crisis era? Participants pointed out that domestic interests continue to push each power to take actions that are viewed negatively by the other. Some segments in China paint the so-called G-2 as nothing more than a trap for China. In the rest of the world, some nations worry that this implicit G-2 leadership will benefit China and the United States to the detriment of others. Participants saw key issues for the bilateral relationship: parameters for a new trade round and clarifying the terms of “fair competition” between the United States and China, in particular the role of state-owned enterprises in the global economy.

## The Trilateral China-Japan-ROK Summit and TPP

For the Asia-Pacific region, conference participants discussed the significance of the China-Japan-ROK relationship and regional multilateralism. The region’s recent multilateral cooperation has evolved to give various institutions their own specialization: ASEAN+3 a focus on financial issues, APEC on trade liberalization, and the TPP a focus on a new kind of broad trade and investment agenda in the region promoted especially by the United States. The East Asia Summit, created in 2005, seems to represent, not without some contention, a political and security forum for the Asia-Pacific region.

To some extent, the dense web of regional governance forums has fed bureaucratic fragmentation. Within Japan’s government, for instance, competition among ministries has led to responsibilities for different regional organizations that are not always rational. There is also significant unevenness in terms of the support offered by secretariats for the various regional organizations. Some participants suggested that the support functions for regional institutions such as ASEAN+3 should be strengthened.

As a divided land bridge, Korea has much to gain from regional integration as the Asia-Pacific region moves from the post-1945 settlement to cope with changing power dynamics. For the Asia-Pacific region to secure peace and prosperity, it must contain maritime confrontation (in the East China Sea, for example), and these three East Asian powers must continue to expand economic interdependence with the rest of the world through trade and investment channels. Consequently, Korea is interested in working with China and Japan to promote trilateral cooperation and weave ASEAN+3 and TPP efforts into a more dense overall web for cooperation in the Asia-Pacific region. Korea is in a good position to do so based on its status as a rising middle power.

China is noticeably concerned over how the TPP will affect its economic and security environments. To help allay these fears, participants argued for the United States to keep China well informed at every step of the TPP process. Such proactive transparency, it was argued, will be crucial to dampening Chinese suspicions. What kind of system do the participants favor? Can the United States and China, for instance, work together on Asian cooperation? China insists that if the United

States is only determined to keep US-centered military alliances, the bilateral relationship will be much more difficult. What are the implications for East Asian integration? East Asian integration has been driven by market forces primarily, not by top-down negotiations. Issues like food and resource security remain unaddressed, however. The TPP negotiations keep states talking to one another and may lead to an agreement, but not likely in the near future. Issues such as intellectual property, market access, and the behavior of state-owned enterprises remain contentious. None of the major East Asian players—China, Korea, or Japan—has joined, nor has Indonesia from Southeast Asia. It remains unclear how the pace of regional integration is likely to impact global issues.

### **The Traditional G-7 Powers**

The traditional powers have been meeting at this diplomatic “high table” in some form since 1975. The financial crisis of 2008 served as a clarifying moment in terms of the G-7’s inability to deal with the emergency at hand. Large emerging-market countries, including China, India, and Brazil, needed to be included. Other significant economic powers, such as Korea and Australia, were also important players. So what becomes of the role of the G-7 since the G-20 intensified its consultations to serve as a preeminent global economic policy forum? The G-7 certainly has not faded away; to an extent, it has preserved its role by reemphasizing political and security issues, such as the Arab Spring. Given the prominent European representation in the group, the G-7 has actively discussed the Eurozone sovereign and banking crises. Within the G-20, the G-7/8 purportedly do not caucus among themselves prior to or during G-20 summits. By some experts’ estimates, a G-8 and G-20 pattern of annual but separate summits is likely to continue for some time, with the G7/8 likely to be increasingly focused on political and security affairs, as economic and finance questions are addressed at the larger G-20.

### **The Impact of BRICS**

Does the BRICS group exert much influence on the G-20 process? Notably, its prominence within the G-20 has given it a role in the Eurozone discussions, and its pledge of funds to the International Monetary Fund for the sovereign-debt crisis was a highlight of the Los Cabos summit. As a multilateral body, BRICS has emerged as a prominent platform for the concerns of the large emerging-market

powers, though not necessarily for the broader developing world. While it is too early to consider it a tightly knit bloc, of the various alignments examined at the conference, BRICS was felt to have the greatest potential to emerge as a geopolitical force to be reckoned with.

Meanwhile, BRICS countries face complex structural problems of their own. Growing income inequality in the large emerging markets may eventually lead to social instability. Many of their major industries are at the low end of the global industrial value chain. Moving up the value chain will be critical to sustaining significant economic growth. The large emerging-market countries also face challenges in strengthening their social safety nets. As a first step toward closer alignment, the BRICS countries could make sure the interests of emerging countries are properly represented in various international organizations. Another significant step would be for the BRICS nations to spur the reform of the international monetary system through their own financial links and transactions. To burnish their credentials in global leadership and stakeholder-ship, the BRICS countries should recommit to opposing trade and investment protectionism.

### **Global Economic Governance Institutions and Perspectives from the G-20**

In the aftermath of the 2008 financial meltdown, the G-20 summit process has worked with formal international organizations like the International Monetary Fund, the World Bank, and the Financial Stability Board to bolster the global economy and financial system against future crises. The G-20 has been an important forum for promoting the reform of international financial institutions and to prevent rising protectionism. Yet the G-20 has also been criticized as having failed to deliver major global economic governance reforms or a substantial boost in multilateral cooperation. Conference participants took issue with that critique by emphasizing the need for more realistic expectations. While the G-20 must help address global challenges to justify all the effort devoted to it, progress is bound to be incremental and should be judged accordingly.

In terms of the G-20’s comparative advantage within the multilateral system, participants highlighted its flexibility, informality, and of course the intense involvement of heads of state or government. Strictly speaking, the group is merely a loose set of consultations, without any defined authority or decision rules. But it is well positioned to spur progress on

issues by providing high-level impetus, often in support of traditional international organizations. While the G-20 has started extending this role beyond its core responsibilities for global growth and financial stability, it must work to strike the right balance between core and peripheral topics. The next phase of its evolution should thus focus on developing new means of discipline to manage the substantive items on its agenda.

As host of the 2012 Los Cabos summit, Mexico set the agenda. The topics included a mix of the traditional (growth and employment, financial regulatory reform), recent additions (food security, sustainable development), and newcomers (green growth and climate-change financing). Participants expected these topics to be continued by Russia in 2013—although no official agenda has been published—and observers also predicted a heightened focus on other energy issues, including infrastructure, stability of supply, demand, and transit.

In assessing the 2012 Los Cabos summit, participants gave a qualified endorsement, concerned over the prolonged Eurozone crisis and a perceived leadership gap. They acknowledged the laudable job done by the Mexican government host but saw a need to spread responsibility so it is less concentrated in the hands of future summit hosts.

## Participant List

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Affiliations are listed for identification purposes only. Participants attended as individuals rather than as representatives of their governments or organizations.

## **Korea Development Institute**

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Korea Development Institute (KDI), since its establishment in 1971, has been recognized as a leading think tank of Korea, significantly contributing to the economic and social development of Korea. For over four decades, KDI has consistently provided policy recommendations and guidance based on in-depth analyses of international and domestic economic conditions and projections while conducting policy-oriented empirical, institutional, and theoretical studies.

## **Munk School of Global Affairs**

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The Global Summitry Project at the University of Toronto's Munk School of Global Affairs promotes global governance research and evaluation. The Project has created an on-line library of authoritative documentation from key multilateral organizations and closely monitors agenda-setting between summits through its 'Global Reports.' Its signature publication is the peer-reviewed e-journal *Global Summitry*—under the guidance of editorial and global advisory boards comprised of esteemed experts—that reports on the successes and failures of key international organizations and global meetings.

## **Shanghai Institutes for International Studies**

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Founded in 1960, Shanghai Institutes for International Studies (SIIS) is a comprehensive research organization for studies of international politics, economy, security strategy and China's external relations. The SIIS is dedicated to serving China's modernization drive and Shanghai's opening-up and economic development. It mainly studies the United States, Japan, Europe, Russia and the Asia-Pacific region, focusing on relations among major powers and China's periphery environment.

## **The Stanley Foundation**

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