Kemal Dervis, Vice President for Global Economy at the Brookings Institution and Senior Advisor at the Sabanci University, former Minister of Economic Affairs of Turkey

I will put one question to all of you, starting with Lourdes and then moving Dr Il Sakong and Jacob Frenkel. When we discuss the G20, we must remember that there are two G20s. There is the leaders’ meeting, which we are talking about. However, for many years, there has been the Finance Ministers’ G20. The leaders’ meeting grew out of the Finance Ministers’ meeting, so it is closely linked. There are two questions here. To what degree do you see the leaders’ G20 remaining very much linked to the Finance Ministers? Or is the leaders’ meeting now also increasingly one in which the Foreign Ministers play a very important role. That is one question.

The second question may be a little more provocative. When the Finance Ministers meet, it is a group that is not exactly the same, but is quite similar. However, on a constituency basis, they meet as the International Monetary and Financial Committee (IMFC). There is a meeting within the IMF framework of about 24 Finance Ministers. Not all of them, but many of the G20 Ministers are part of that. Then there are some others. Would there be some logic in preserving the leaders’ G20, so the leaders’ G20 meets as leaders, as they have in Seoul and as they will in Mexico and so on? Do we really need a separate Finance Ministers’ G20 and the IMFC? Or could we have a scenario in the future, where these two meetings of Finance Ministers merge into one? Have you any thoughts? This is on either of the two questions, whichever you want.

Lourdes Aranda, Sherpa of Mexico to the G20, Vice Minister of Foreign Affairs of Mexico

I will take on the first one, because I do not want my Finance Minister to get upset with me regarding the second one, if I do not answer it correctly. The second one was very clear, when you said it is not just the summit, the event; it is a process. To get to the Summit, we need all the preparation and all the reviews for the different Vice-Ministers and Sherpas’ meetings that take place. Then there are the Financial Ministers’ meetings. For now, we have the mutual-assessment process, which has to be done on a very regular basis and it cannot be done at the leaders’ summit; it has to be done throughout the year.

There are several very technical issues that have to be discussed in various forums before the Summit. The Summit is a place where you give the political input to the process, in which you decide the form in which next year’s Summit will take place. I do believe the leaders themselves will have to sit down and review the IMF quorum exactly and other issues. They are the ones who will give us the guidance to all of us.

Eventually, I do not think they will only have to deal with economic and financial issues, but also with other issues. Sometimes, the trade issue has been on the table and the leaders have been not been able to give the political support for it to be solved. That is where we have to work, for the leaders to give exact instructions on the way we should follow up in working. So far, there has never been a Foreign Ministers’ meeting. I do not think it should be ruled out. Eventually, as I said, the G20 will have to take on some political issues. The one that is important is the governance issue. What is the role of the G20 regarding what is happening in other international forums?

There is a big discussion of why the G20 is assuming the decision making on important issues without incorporating all nation states. This discussion is being held a lot at the UN and there is reluctance from some countries; the G20 believes it is the one who has to deal with it. I think it is much easier for Foreign Ministers to keep discussion the issues of global governance. Prime Minister Cameron presented a very thorough report on global governance, which
we still have to follow up. It can be done through the Foreign Ministers. This is an evolving process and the G20 has to learn from previous mistakes, from its own mistakes. We must see how we can work on breaking stalemates that we have at international level at the moment.

Kemal DERVIS, Vice President for Global Economy at the Brookings Institution and Senior Advisor at the Sabanci University, former Minister of Economic Affairs of Turkey

Dr Il Sakong, have you any thoughts on the IMFC versus the G20 Finance Committee.

Il SAKONG, Presidential Envoy of the Republic of Korea

Kemal raised this question for clarification. When we talk about G20, in my view, it is a Summit; we are talking about the G20 Summit. In the midst of the worsening global financial crisis, the leaders decided to meet. They did not know if it would be 20, 14 or 15, but they decided on 20. There was already a Finance Ministers’ meeting, so why not utilise this Finance Ministers’ meeting which already meets. As you know, there are all kinds of background stories, but they somehow ended up with the G20. Assuming that there is no G20 Finance Ministers’ meeting and the leaders decided to hold the G20 Summit, it is very natural to have a G20 Finance Ministers’ meeting, to support the summit.

We have the G20 Summit process; to support this, we have the G20 Finance Ministers’ meeting. To support that, we have the Finance Deputies’ meeting and then to support this again we have the G20 Sherpas’ meeting. It is all an integral part of this G20 Summit; it is not separate. These G20 Finance Ministers meet to support the leaders to make these strategic and important decisions.

Then Korea added the Business Summit. Again, usually, when you talk about the Business Summit, it is usually held along with the Summit; they are usually held at the time of the Summit. However, the G20 Business Summit is now an integral part of the Summit. In other words, Business leaders are not meeting separately from the G20 Summit, but they meet there as a part of this whole process. Their input is directly channelled into the Summit process and some of their recommendations will be added and have been reflected in the communiqués. We have the Business Summit, the Finance Ministers’ meeting, the Deputies’ meeting and the Sherpas’ meeting.

Then, after establishing itself as a functioning steering committee, the G20 may want to include a Foreign Ministers’ meeting for security matters. There may even be a Labour Ministers’ meeting for employment reasons. Actually, in Cannes, they had this L20, as they called it. However, it is not just Ministers’ meetings that are important, it is the process again. They have to work all the time and then come up with a decision which is made by Ministers and then submit it to the leaders so the leaders can take on the decision.

With regard to the IMFC and the G20, there has already been discussion on this issue. The IMFC is constitutionally based and it is more complicated again in its organisation. Eventually, there could be some formal structural relationship with the IMF. The topic needs to be discussed further, but I think at this point, I think it complicates the process of the G20.

Kemal DERVIS, Vice President for Global Economy at the Brookings Institution and Senior Advisor at the Sabanci University, former Minister of Economic Affairs of Turkey

As a moderator at the conference, it is my duty to press you a little bit harder. I think the G20 has been a huge step forward for the world economy. As you all said, it has brought in the major emerging market players. Jacob gave figures regarding how the world has changed. Having meetings on the world economy without Mexico, Korea, Brazil, China and Turkey does not make sense. However, on the other hand, it is part of the discussion.
What do we say to Egypt, which is a major country, with a population the same size or larger than many of the G20 countries? What do we say to Colombia? I know my Colombian friends are good friends with Mexico and good friends with Argentina, but they also feel that they are a major Latin American country. Are they going to be excluded? What do we say to Nigeria, which is a huge African country and is not part of the G20? That is part of the criticism; that is something we have to face. The link to the IMF makes it a little bit easier, in my view, because everybody is a member of the IMF. However, what do you say to Nigeria, to Egypt and to Colombia? You will start, Mr Sakong and then we will ask Lourdes.

Il SAKONG, Presidential Envoy of the Republic of Korea

You know as well as I do that ideally, what the global community needs is G192, like what happened in Copenhagen. You cannot include everyone, so G20 covers more than 85% of the global GDP and two-thirds of the global population. The important thing is that G20 should have very, very active outreach activities with those countries that are not included in the group. In fact, Korea even designated an ambassador, who will engage full time with these countries, outside of the G20.

They will say that Korea is here, so we can represent you. We know your priorities, your concerns and your agonies better than anyone, so let us work together. You cannot have G193 working together. Previously, you only had the G7 and now you are including the emerging economies. You have to compromise somewhere, so I think the important thing involves outreach activities.

Kemal DERVIS, Vice President for Global Economy at the Brookings Institution and Senior Advisor at the Sabanci University, former Minister of Economic Affairs of Turkey

Lourdes, on that point, I am sure you hear some voices in Latin America.

Lourdes ARANDA, Sherpa of Mexico to the G20, Vice Minister of Foreign Affairs of Mexico

I do not only hear them in Latin America. It is very hard to have a group in which those who are not there do not feel they should be included. A long time ago, when we worked with the G8 on this G5 outreach, it was a smaller grouping and it was also very strongly criticised. However, I do believe that if you want to have some level of efficiency and capacity to work among the leaders, you cannot have everybody at the table. When you are excluded, you wonder why this country is there and your country is not there. We have to have this outreach.

It is not just the 20 countries. Sometimes five other countries are present as guests, which brings it to 25 and there are also international organisations. You have almost 30 people sitting at the table, which is really not that efficient either. I do believe in the best idea. While Korea did a great job in having this special ambassador, we have appointed a special envoy for G20 matters, who is trying to do the outreach. I do part of it myself as much as my time allows. The idea is to do it very much through the UN. There is also a 3G group and we collaborate very much with this group. We are going through the international organisations.

I do not believe that Mexico will represent anybody, because we do not have that capacity, but Mexico can consult other groups and other countries and try to bring them along and understand what their concerns are. We can share what we are doing and listen to what they think. It is not only countries; my experience so far is that there are a lot of international organisations and think tanks that have a lot to say, which we are taking into account. My only concern is that most of them have a very specific issue to include in the agenda. If you include all the issues on the agenda, it would just turn out to be the UN, without the capacity to deliver as much as you want. There is no easy solution for this, but the idea is to be as representative as you can and to bring along and understand the voices of everybody.
Kemal DERVIS, Vice President for Global Economy at the Brookings Institution and Senior Advisor at the Sabanci University, former Minister of Economic Affairs of Turkey

Jacob, have you any thoughts on this specific point before we turn to some other issues. This is as somebody who has no official defence to follow, so to speak.

Jacob FRENKEL, Chairman of JPMorgan Chase International, former Governor of the Bank of Israel

As a former official and Governor for the IMF, I obviously agree with you regarding the premise of your first question, which is that the IMF is the true global, universal institution. All other sub-groups are not there in order to weaken the IMF, but in order to support it. Not every small country can be in the drivers’ seat. The way I see it, the role of the international organisations is to create the international economic and financial environment, which will cooperate to achieve the common good. In it, every country does its best.

Every country still has the responsibility to implement the right economic policies; not every country is impacting on the global economy, because some are small. That is the role of the big countries; they have to provide a stable environment for the rest of the world and then everyone will enjoy the benefits.

Kemal DERVIS, Vice President for Global Economy at the Brookings Institution and Senior Advisor at the Sabanci University, former Minister of Economic Affairs of Turkey

Let me say a few words first on that, Jacob. I would perhaps like to move the discussion to the following point and the European issue will come in to it. That is about the whole interaction between regional problems, regional challenges and the global challenge. In the European context, there is actually quite a debate on the Euro crisis, the crisis in the Eurozone. Is this just a matter for Europe? In this case, it is the European institutions by themselves who should address it. Or is it part of a global challenge? If it is part of a global challenge, then both the G20, as a global steering group and the IMF, as a global macro-economic financial organisation, have a role to play.

We saw in the decision that came out of the Summit yesterday that actually, the IMF is being given a specific role. In other words, it is being asked for a role. The European leaders are saying that they will ask their Central Banks to lend to the IMF and then the IMF can have some supportive programmes. We saw in the Cannes Summit how the European crisis took a dominant role in the G20 discussions, so I guess there is a link. However, the question, or at least part of the question, relates to how the G20 deals with regional issues. To start that discussion, maybe you can say a few words on Europe, Jacob. However, I would like to have a discussion not just on Europe per se, but on the links between the European crisis and the global economy.

Jacob FRENKEL, Chairman of JPMorgan Chase International, former Governor of the Bank of Israel

To begin with, in the modern era, political borders are not a defence against economic shocks. Economic and financial shocks, like viruses, like health, like the environment, originate in one place, but end up everywhere else. As a result, we need to have an international framework and the IMF is a good one. Yet it originates somewhere and in this particular case, the issue of Europe reflects governance and policies within Europe, so we need to address this one. Let me say a few words about that.

2011 is behind us. Next year, the Euro Area is expected to grow at a negative rate of -0.5%. Italy is also expected to shrink with a negative growth rate of -1.8%. France is expected to grow at 0.1%. We are at around zero. Is this satisfactory? Is this what the originators of the euro dream had in mind? Does it mean that we need to give up the
dream, or find out what went wrong? Somebody said that if you want your dream to come true, you have to wake up first. It seems that we have now got the wake-up call and the wake-up call is loud and clear.

We have a good opportunity for a new beginning. There is all the motivation in the world, from the public and from the political arena. You can ask yourself why they did not do it before. The issue of motivation is an important one. Let me bring some smiles to your face in these gloomy days. There was this guy who was condemned to die and he was taken to the electric chair, but he was so big, he did not fit in the chair. He was told to go home on a diet and come back in six months. He came after six months much bigger and he was asked, ‘Why did you not go on a diet?’ His answer was, ‘I did not have motivation.’

There is a reality when it comes to the European situation and last weekend is a great example. When nations feel that their back is to the wall, there is a willingness to re-examine things that were never on the table. Let me look for a minute at 2-3 things that were not on the table. First, some of you are lawyers. Let me ask you how many contracts you would approve if they never had an exit clause. The contract for the Eurozone was based on the premise that the absence of an exit clause is an asset that will increase credibility. It is a beautiful thing not to have a window when there is no fire, but when there is a fire, you need to have a door. We need to specify in advance what the rules are.

There was the Stability and Growth (S&G) Pact, which governed the Maastricht Treaty. This was violated immediately by France and Germany. However, in this S&G Pact, most of the focus was on the S (stability). Very little was put on the G (growth). Likewise, there is the Economic and Monetary Union (EMU). Most of the effort was put on the M (monetary), and very little on the E (economic) Union. If one looks back, one can see that the sustainability of an arrangement is not only based on the fact that it brings stability, but that it also brings growth.

Where did we fail regarding growth? This brings me to your question, Mr Chairman. If you look at Europe today, you see that during the past decade, some countries lost significantly in competitiveness. Italy is a prime example. Some gained significantly in competitiveness; Germany is a prime example. Obviously, a big gap happened within the family. When you have big gaps in a family, do you have a way to reconcile them? These gaps have been reflected in very large surpluses in Germany over the years. This is 5% per annum in the current account of the balance of payments. These financed very large deficits on the part of other areas of Europe: Portugal, Ireland, Spain, Greece, you name it. In aggregate, Europe was relatively balanced and for many years, European leaders were proud of it. They said, ‘We do not contribute to imbalances in the world, in contrast with Asia and the US.’ However, the cancer was within, because the intra-European imbalances were very large. This means that since we have an opportunity to start again, we need to make sure that large intra-European imbalances are not allowed to develop. This is because they create very large debt.

We have learned that even private debt becomes sovereign debt when there is a crisis. Sovereign-debt crisis is a mechanism that can destroy democracies; it can destroy the middle class. It can give the ‘right’ to implement policies that should never be introduced, but with the excuse of an emergency, Governments find them attractive. The issue of doing the wrong things for good causes is haunting us because we do not design the exit strategy from a highway that we never want to go on.

We need clarity; we need governance that is correct, we need to focus on growth. The Euro system has eliminated the currency risk, but has not eliminated the credit risk. Yet each country is so different in terms of its credit class. That is why it was so difficult to introduce a pan-European bond, because they do not belong to the same asset class. If there is to be a chance for a new beginning, one needs to focus on this.

I have a final remark. Such a lot of the public debate was about how much money will be put on the table. How much will the IMF pay? How much will the European Union pay; how much of this and how much of that? That money is used to finance a transition period, but we must make sure that during that transition period, there are enough adjustments in the country in question. This means that at the end of the journey, there will be no need for that money. The focus again is on structural measures and not just on financing.
There is a challenge. The political clock is such that you need much more time to bring about outcomes than the economic clock and the market clock. How do you reconcile them? You can reconcile them only if you portray credibility, so that the word about the promised future is believed. In order to enhance credibility, Europe needs to adopt front-loaded measures.

Kemal Dervis, Vice President for Global Economy at the Brookings Institution and Senior Advisor at the Sabanci University, former Minister of Economic Affairs of Turkey

Let me recap. I will follow up on the discussion, but also try to focus on the G20 issues. This is to both Il Sakong and Lourdes. How do you see the regional versus global interaction? What would you like to say, from a G20 angle, or from an IMF angle if you like, on the European crisis? There is a second point I would like to make. Within the G20, in your experience, is there a division between the G7 and the emerging markets? Are the emerging markets in the G20 behaving as a kind of sub-group, with the G7 members behaving as a kind of sub-group? Or on the contrary, do we see many different groupings within the G20, depending on the issues? After all, Germany and China, regarding their current-accounts surplus, are more similar than China and India, for example. How do you see the internal dynamics of the G20?

Il Sakong, Presidential Envoy of the Republic of Korea

With regard to your first question, I already gave an answer. The G20 should get involved with the current European issue and any other significant global issue which may become contagious throughout the world. To support my argument here, I would like to provide you with a perspective. Greece has a population of about 11 million and their GDP is a little bit less than 2% of the EU's GDP. Their outstanding sovereign debt still accounts for a little over 4% of the EU sovereign debt outstanding.

Even then, on the other side of this globe, Korean housewives pick up the newspapers in the mornings to see what is happening in Greece. Why? It is because global economies are so inter-dependent and so integrated. I would say that during the Asian financial crisis of 1997 and 1998, I do not think the ordinary housewives in this region, America or anywhere outside of Asia was very concerned. This was with what was happening in Korean, Taiwan and Thailand.

What that means is that in the last decade or so, the global economies became much more inter-dependent and financially integrated. We are living in this kind of world. The G20 is supposed to be a global steering committee, so it should get involved in issues at national level and even the Greek issue. The Greek problem is not managed well within the region, so it is now becoming a global issue.

There is no national-level issue that is separate from regional or global issues, to a great extent. That is why I said that the G20 should get more proactively involved in dealing with this current EU issue, in close cooperation with the IMF. This is our problem, the global community's problem; it is not just the EU's problem. That is why I think the G20 should get involved and more and more proactively engaged.

The second question is about internal dynamics within the G20. Again, this is a very important issue. Fortunately, I think the strength and health of the G20 so far is that countries take sides on an issue. This is as opposed to saying as soon as you sit down that this is an issue for an emerging country or an advanced country. This is a very unhealthy thing for the G20 as a global forum. In that regard, I do not personally want to see G7 acting as a caucus.

That is why I was so glad when the G20 Finance Ministers decided not to publish their communiqués before the G20 meeting, which is a very good thing. Even before we go into the Summit, we are saying that G7 has this kind of position, but that is not the purpose of the G20. Regarding the Greeks too, I do not want the Greeks become a kind of caucus; they cannot, because there are so many differences on different issues. So far, I see it as fortunate regarding the G20. I would like to see the G20 continue to work in that way.
Lourdes ARANDA, Sherpa of Mexico to the G20, Vice Minister of Foreign Affairs of Mexico

On the last point, I do agree with Il Sakong that it is very difficult to have caucuses within the G20. Sometimes, some countries would like to have them.

Il SAKONG, Presidential Envoy of the Republic of Korea

These are issue based.

Lourdes ARANDA, Sherpa of Mexico to the G20, Vice Minister of Foreign Affairs of Mexico

Yes, but we try to avoid it as much as we can. The alliances in the G20 depend on the issue. You have different positions regarding issues. For example, when it was fiscal consolidation, some countries wanted to go into fiscal consolidation very quickly and others did not. That is the way it is. However, the groupings might be quite different for financial and tax issues. In that sense, I do not think it works like that. I can tell you that some emerging countries consult each other at the beginning of a Summit just to know where we are. However, there are very few things in common among some of the emerging countries. Fortunately, it is not working that way.

In the second case, it is perfectly clear that there is no such thing as a European crisis, which is not affecting all of us. So far, since the summer, the European crisis has affected us all in different ways. This is precisely what we have to underline. If we do not take coordinated measures regarding economic problems, then we will be in a worse situation. There is not a regional crisis. Of course, Europe has to have the solution in the way it makes decisions.

However, we have to be very clear that the way it makes decisions can affect the global economy. That is where the G20 has to come in and try to save it. In the G20, there is no small economy that cannot affect all of us. The Greek economy is smaller, but regarding most economies in the G20, if they go into a terrible crisis, it will affect the rest of us. Coordination is the most important.

Kemal Dervis, Vice President for Global Economy at the Brookings Institution and Senior Advisor at the Sabanci University, former Minister of Economic Affairs of Turkey

Jacob, can you say one quick word on the grouping, because we want to turn to the audience now?

Jacob Frenkel, Chairman of JPMorgan Chase International, former Governor of the Bank of Israel

I think that we should recognise that all of these groupings are dynamic concepts. I have been around long enough to remember that initially, at one stage, they were called Less-Developed Countries. Then they were called Developing Countries and then they were called Emerging Economies. Then they were called Poor Countries. On the other side of the spectrum, they were called Advanced Economies and Industrial Economies. All of these terms are very different. They represent different perceptions and they serve Statisticians and Economists in creating tables which classify data.

However, by and large, the more the financial markets are integrated, the more everyone is impacted. Finally, in this regard, the Bank for International Settlements (BIS) is the forum in which all central bankers are getting together. Initially, it was primarily the advanced economies. When the ECB was created and the forum for the European central bankers was created to be placed in Frankfurt, it became clear that it would displace the BIS unless the BIS took
significant measures. What did the measures entail? They entailed expanding the membership of the BIS to include countries like Korea and Mexico and, thereby, making the BIS a more global institution. In this regard, the most universal economic institutions remain the two Bretton Woods Sisters – the IMF and the World Bank.