



SAKONG IL

Personal Representative of the President of the Republic of Korea

I would like to begin by congratulating the IFRI under the leadership of President Montbrial for initiating the World Policy Conference at this very opportune time when the existing global governance is severely challenged. It is indeed a great privilege for me to take part in this Conference. I thank the organizers of this Conference for inviting me.

Given the time constraint, I would like to make a few general remarks regarding the global economic governance reform and the current financial turmoil. If I have more time later, I would be glad to get into details.

Current Status of the World

Today's global power structure is unique in the sense that it is neither purely unipolar nor multipolar. No doubt that the United States is still a dominant power or a superpower. But together with the United States, there are several major powers. As such, some scholars describe the current global power structure as "uni-multipolarity" and some others go as far as to call it "nonpolarity."

Unlike in the previous unipolar world, under the current global power balance, decision-making at the global community level is expected to be more complicated and time-consuming. Contrastingly, the Bretton Woods System was established even before the World War II was over and the GATT immediately after the war. I suppose the currently stalled DDA negotiations can be seen in this light. I feel sympathetic with Pascal Lamy for his difficult task of trying to ensure the DDA negotiations resuscitated.

To make this situation even worse, the only superpower, the United States, is not taking a active leadership role. Of course, during the Cold War era, the United States had both strong incentives and economic affordability in assuming the global leadership role which obviously involves economic costs.

In terms of incentives, during the Cold War, the United States had the Truman Doctrine by which the United States was committed to block the spread of communism in the free world. Also, there was a very strong economic incentive for the United States. Immediately after the war, the United States had almost a half of world industrial production capacity. To utilize the capacity, the United States obviously needed demand from the rest of the world. The introduction of the Marshall Plan for Europe and the Dodge Plan for Japan for their early economic recovery and the establishment of the GATT-Bretton Woods System for global financial stability and free trade environment for the whole world can be understood from this perspective.

Currently, however, the Cold War is over and the US economy is not as strong as before. Furthermore, its relative position in the world is substantially diminished. Consequently, the United States today does not have enough incentives and affordability of exerting strong global leadership. This current situation resulted in a "global leadership deficit" for the global community.

Due to the global leadership deficit, not enough progress has been made in the area of reforming the International Financial Architecture although there were intensive discussions on the subject immediately after the Asian financial crisis of 1997-98. The progress made so far has been meager enough to be described as "modest interior redecoration." Even this redecoration was done, mostly for emerging economies by "downloading responsibilities on emerging market economies." Remember Asian-type crony capitalism and moral hazard problems in emerging economies were the most popular words then.

On the other hand, the IMF's mandate for surveillance of the advanced economies, including the US, was not properly executed. And the call for closer cooperation and coordination among national supervisory and regulatory bodies was not fully responded as yet.

New Global Governance System and Regional Cooperation



The changed global economic power balance demands a major reform in the existing global governance system. First of all, its institutional infrastructure which has been in place since the 1940s has to be reformed to make it politically more legitimate and operationally more effective. Certainly, the Bretton Woods Institutions and G-7 are cases in point. In this connection, I am of the view that President Sarkozy's proposal to expand G-7 to G-13/14 is in the right direction. However, I must say that countries to be included in G-13/14 should be more carefully selected. The selection should be based on criteria of both their economic weights and their possible contributions towards a sounder global governance system. I would like to see my country, Korea, be included in the group for both accounts. I just want to remind you of the fact that Korea has both first-hand experiences of rapid economic development and financial crisis. Korea being a member of the OECD, it can be the best country to mediate between developing and developed countries in resolving differences in the group.

With regard to the reform of the Bretton Woods Institutions, the IMF's mandate has to be changed in many aspects. One important area would be the exchange rate regime area so that the IMF can actively involve in designing appropriate exchange rate regime for member countries and strengthening its oversight on financial regulations and supervisory functions. Of course, the mandate should be exercised fairly for both developed and developing countries. The other areas for reform of the Bretton Woods Institutions regard the distribution of voting rights, allocation of executive board seats and the selection of heads of those institutions. As for the voting rights, the 2006 IMF/World Bank meeting in Singapore did adjust the quota of some of the under-represented countries, including China, Mexico, Turkey and Korea. But still major emerging economies' weights are not yet fully reflected. However, no serious debate has yet to be made in connection with the selection of heads of both institutions.

My second point regards endeavors for strengthening regional level governance system to supplement the currently weak global governance system. First of all, I would like to see the global community encourage rather than discourage regional level cooperative arrangements as long as their modes of operation are to be consistent with those of multilateral institutions. In this regard, I would like to see so-called Chiang Mai Initiative (CMI) of ASEAN+3 evolve into a full-fledged regional monetary facility, provided its mode of operation remains consistent with that of the IMF. By the way, the Chiang Mai Initiative, which originally started as a network of bilateral swap arrangements and was recently agreed by the ASEAN+3 countries to turn into a multilateralized financial resources pool. At this point, I must say an EU community-wide fund proposed by President Sarkozy to deal with the current banking crisis is not a bad idea. In addition to a village fire squad, it is useful to have neighbors' self-help preventive apparatus as long as they do not throw gasoline on the fire.

Contagion is a fact of life in this era of deeper economic and financial integration. So such regional arrangements can help prevent possible contagion throughout the world by resolving crisis at the regional level.

Current Global Financial Turmoil

Now, I would like to make a few remarks on the current global financial turmoil. My first point is that it should not be seen as a failure of the liberal financial system itself. Rather, the inappropriate and poorly implemented supervision and regulatory regime is to be blamed. We all learnt from the 1997-98 Asian financial crisis a very important lesson. The lesson was that in the financial market, prudent supervision and regulations are absolutely necessary to make the financial market function efficiently. It suggests that in liberalizing financial markets a right sequencing is critically important. More specifically speaking, before liberalizing financial markets it is necessary to have a prudent supervisory and regulatory infrastructure in place and supervisory capability building endeavors especially for emerging economies. As a matter of fact, there is a consensus on this point among economists and policymakers. I suppose one can say that it is a new "Washington Consensus." Currently, the voice for a big bang approach in liberalizing financial markets of emerging economies has been subsiding. Instead, an orderly and well-sequenced liberalization approach is recommended.

What I am concerned at this point is the pendulum of regulations to swing toward the other extreme. What we need is a prudent regulatory and supervisory function carried out properly. But the current financial crisis should not be used as a pretext for reverting to the financial statism.



The second point is that the global community should pay a special attention to the possibility of resurgence of protectionism, nationalism and anti-globalism. The conference like this one where global political leaders and leading global intellectuals gathered together should express the common concern in this regard. More specifically, I would like to see a strong statement for supporting the resumption of the DDA negotiations.

We all learnt from history that no country has ever enjoyed a sustained prosperity without actively taking advantage of globalization. The story of South Korea as compared to its Northern brethren illustrates this point most vividly. All countries in the world should make every effort to take full advantage of merits of globalization, while minimizing its downsides. A strengthened international financial architecture suitable to the changed global environment will be critically important as a basis for such efforts.