

## IL SAKONG

Chairman of the Institute for Global Economics, former Finance Minister of Korea

**Virginie ROBERT, Foreign desk editor, *Les Echos***

I would like to turn to Mr SaKong, who has been one of the Sherpas of the G20. Do you feel that there is a need for reform, for better alignment, as Mr Lipsky just said?

**IL Sakong, Chairman of the Institute for Global Economics, former Finance Minister of Korea**

This issue should be put in a wider perspective of the current global governance system. The post-World War Two economic order, as we are used to, was based on the institutional setup of the GATT, now the WTO, and Bretton Woods institutions. The US played the key role in establishing these institutions and keeping the world order. An important point in this regard is that the US used to have both affordability and incentives, both economic and security-related. So, the US sometimes was willing to provide even “side payments” to member countries for them to abide by international rules. The Marshall Plan and the Dodge Plan are good examples.

However, coming into the 1970s and the 1980s, the US domestic economic situation and the global economic power constellation changed to make the world multipolar or even no-polar. Consequently, decision-making for the global community became more difficult. So, G5 and G7 were formed informally and they produced ad hoc arrangements, such as the Plaza Accord and the Louvre Accord. After the 2007/8 global crisis, global leaders felt that the G7 was not representative and credible enough, so they decided to initiate the G20. The G20 was not meant to be a formal global institution; it was an informal “steering committee”, so to speak, for the world, to exert collective leadership for global economic affairs.

In any case, it is not to replace formal global institutions, but it is just an informal steering committee. Currently, the Bretton Woods institutions do not reflect the current constellation of global economic power. So, G20 leaders in Seoul 2010 agreed to substantially reform the Bretton Woods institutions, particularly the IMF, with a historic shift of 6% of quota from overrepresented to underrepresented countries. Unfortunately, its implementation has been stalled by the US Congress.

What is needed for the global community is to make the G20 a workable collective leadership forum. The world needs global public goods, i.e. financial stability and free trade environment for its sustainable and balanced growth. In this regard, the G20's role is very important.

Obviously, the G20 should work closely with the IMF and other existing multilateral institutions by making them more credible and legitimate. By all means, we do need a new global order which will be more conducive to continued global growth and prosperity. Towards that end, the G20 should play an appropriate role. I personally am quite disappointed by recent G20 performances.

**Virginie ROBERT, Foreign desk editor, *Les Echos***

However, it is almost impossible, as you mentioned, to reform the IMF right now for political reasons, so when we see China setting up new banks with the BRICS or lately with the AIB, do you see these as rival institutions to those of Bretton Woods?

**IL Sakong, Chairman of the Institute for Global Economics, former Finance Minister of Korea**

Personally, I do not see AIB as a rival institution to the Bretton Woods institutions.



**Virginie ROBERT, Foreign desk editor, *Les Echos***

What is it, then?

**IL Sakong, Chairman of the Institute for Global Economics, former Finance Minister of Korea**

I just hope it will not be the case. In fact, it should not be the case. By the way, the AIIB is infrastructure investments and the IMF's role is more on macroeconomic and monetary and fiscal policy matters. According to McKinsey, the world needs USD 57 trillion of infrastructure investments. The AIIB with its expected capitalization of USD 100 billion and the World Bank together are not enough to meet the vast global infrastructure investment demand. So the initiation of AIIB is good for the global community, as long as this institution is to become complementary and supplementary to existing institutions such as the World Bank and the ADB.

By the way, McKinsey's figure of USD 57 trillion is not based on feasibility or profitability studies. In fact, the effective demand may be much lower. Therefore, the role of the AIIB is not confined just to funding, but it should include feasibility studies, project identifications and so forth. For that, the AIIB should work together with the World Bank and the ADB which have the plentiful accumulated knowledge and know-how. For its success, therefore, the AIIB needs to collaborate with them. That is why I do not think it can be seen as a rival to the Bretton Woods institutions and others.

**Virginie ROBERT, Foreign desk editor, *Les Echos***

That is a very positive view, because some have said that it is a way for the Chinese to create new organisations in areas they did not have enough space before, and they can grow while ours go down.

**IL Sakong, Chairman of the Institute for Global Economics, former Finance Minister of Korea**

I also believe China has global strategic ambitions as well and I do see that, too. However, they are longer term ambitions to be fully realized. Based on today's exchange rates, China is about 15% of the global economy while the US is about 25%. But China has only about 4% of the IMF quota and the US around 18%. What needs to be done is to make the existing multilateral institutions more representative and legitimate. Increased Chinese quota and voice in the Bretton Woods institutions is inevitable and China, obviously, wants that. That is the way I see it.