

MacArthur Asia Security Initiative 2010 Annual Meeting

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Speech
Transcript

Speaker

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The transcript of welcoming speeches as well as the keynote speech at the MacArthur Asia Security Initiative Annual Meeting is as follows.

Welcoming Speech

Sook-Jong Lee, President of the East Asia Institute

Hello, Good Morning. It's my great honor to welcome you to the second annual grantees' meeting of MacArthur foundations' Asian Security Initiative program.

This is a long title, so we just call it MASI. Following the successful inaugural meeting in Singapore, Asia, this year's meeting also draws active participation with forty-one scholars and researchers, from thirty-five institutions in attendance. We represent nine countries, if I call them in descending order of the number of the participants; they are the United States, South Korea, China, India, Australia, Singapore, Japan, Bangladesh, and Taiwan. In terms of country membership, this gathering reminds me of one of East Asia's regional body that have been active since 1999. But I think here is big difference, we are scholars and experts, free from official government position, or domestic political interest. At the same time, we have come here not as an academicians to develop theories or models. We are here to exchange our frank opinions and useful ideas on security challenges in Asia. I am proud to say that this group has a great potential to generate influential policy impacts. Thinking of the

importance of this program, I would like to thank the MacArthur foundation's initiative launching this program. Particularly, on behalf of everyone here, I would like to convey to the foundation, our sincere appreciation of its continuous support, despite financial constraints brought on by ongoing Global Financial Crisis. Let me first briefly introduce our institute. The EAI is young, but rapidly growing think-tank, founded in 2002. While engaging research on domestic public issues, and policy agendas, we are committed to expanding knowledge networks in East-Asia. As part of these efforts, we publish the journal of East Asian studies, as well as support and administer the East Asia Fellowship or North America based Scholars to conduct research in the region. We also carry out regionally focused cross-national surveys, linked toward renowned institutions around the world. As an extension of these activities, we see the EAI hosting the MASI program as one of three core institutions, to be an integral part of our mission and commitment. It is also privileged to expand our ties to new institutions and corporate with renowned experts like you through the MASI network. Dear colleagues, we joined this program to develop policy alternatives toward imminent as well as potential security challenge in Asia. As a region, I think economic conditions and future prospects are positive. By the 2008 Global Financial Crisis hit the United States and European countries more seriously, economic condition of East-Asia is rather good -is over good- in my thinking. If I compare the thirteen APT countries' economic size, that are projected to surpass Europe in the near future. Our region has two rising economies, China and India

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whose economic performance has significant, and global repercussion due to the great size of their territory and population. It is no wonder why the four Asian economies of China, India, South Korea, and Indonesia are represented in the G20 in addition to Japan, which has been a long time member of the G7. Our increasing economic capacity fails in comparison to the region's security challenges. We face many development related endogenous problems, such as energy shortages, environmental degradation, both of which are important for human security as well as sustained economic growth. We also have territorial disputes, over islands and sea lanes. More seriously, we face North Korea's nuclear ambitions that weakened NPT regime. With strongly rooted nationalism, it is difficult to forge a consensus to resolve conflicts from a wider perspective. Above all, the level of both political trust and military confidence is still low. We need to cooperate more vigorously, to tackle all these security challenges to maintain, also ensure peace in our region. At the same time, it is time for Asians to think hard about how to respond to problems and pressures from outside the world. All the security problems tend to be more local than economic problems we often have to rely on global norms and regimes to settle our regional challenges. But linking regional issues to global ones, by participating more actively in existing global institution, we can make global governance more effective and democratic. Facing a complex nature of security challenges today, we now have to address both exogenous and endogenous security matters. Let me repeat that this is a rare opportunity for us, Asians from so diverse institutions to gather at the same venue. In order to facilitate the in-group networking, that has been somewhat neglected, EAI has organized for meetings with each research cluster, at the same time we have two topics of 'Post-crisis regional and global order' and 'East Asian community' to the table or active discussion by two groups. Dear colleagues, let us think about higher goal with this rare opportunity. We should encourage more active research collaboration across individuals and institutions participating in this program. If we regard our networks as a mere grantees' networks, our efforts will remain the same as other ephemeral program that tend to be disappear when funding stops. Therefore, we should aim at developing the current networks

through creative and collaboratively research and diverse institutional cooperation. Ultimately, I wish our efforts contribute toward building an epistemic community, serving peace and prosperity in Asia. The community, we scholars and experts, have better skills and dedication than politicians and bureaucrats. Calling on this ambitious goal, I hope we can stimulate each other's imagination and generate pragmatic ideas on the suggested agenda. Most of all, I wish for you to enjoy this one and half day conference with friendship and hospitality. Thank you very much.

Message Delivery from the MacArthur Foundation and Welcoming Speech

Chaesung Chun, Chair of the Asia Security Initiative Research Center of the East Asia Institute

Before the keynote speech, I would like to deliver a message from McArthur foundation. As you know, while prepare for this meeting, we were supported by MASI network. We have more than forty participants here from thirty-five institutions which all these institutions have supported us in various fields. Also we worked in very close cooperation with McArthur foundation. However, McArthur foundation could not send us any representative because it is involved in foundation-wide-review of the programs and preparation for board meeting. But director Amy Gordon sent us a letter of apology and regret, let me briefly read some part of the letter.

I am certain that East Asia Institution has made the perfect preparations for productive meeting and we are confident that your work will benefit from the interaction. We also expect the meeting to enhance feasibility of your work and look forward to spread your word about what you are doing through the McArthur website as well as through all the initiative supported web portals. Now, there is keynote speech, our keynote speaker is secretary general of the presidential committee for the G20 summit. Dr. Chang Yong Lee, let me briefly introduce him. He is secretary general and new Korean Sherpa from November, 2009. Prior to join the committee, he served as vice chairman of the Korean financial services commission, before that, he was professor of Economics in

Seoul National University, in Korea and University of Rochester in United States. Please welcome Dr. Lee.

Keynote Speech

Changyong Rhee, Secretary General of the Presidential Committee for the G20 Summit

Thank you for inviting me to this prestigious conference. I especially thanks for president Sook-Jong Lee and I might say that I am little embarrassed to give my speech to my teachers and colleagues, Prof. Chung Jong Wook and Kim Se Yoon and many other doctors. I was actually little embarrassed to give speech to my teachers but I will try my best, so not to disappoint them.

In two weeks ago we just finished Toronto Summit, so I think it is very good time for me to speak about the primary goal of the Seoul G20 Summit. Broadly speaking, I think major subject of the G20 Seoul Summit can be categorized two part. The first part is follow-up task from the previous Summit, and the second category is the new initiative that Korean government wants to promote. As for the follow-up study, we call them as legacy task; we can mention three important tasks. One is so called framework for strong, sustainable, and balanced growth; the second subject is international financial institution reform; the third subject is the financial regulatory reform.

Let me briefly explain about what each subject means. The framework is basically the problem of the policy coordination, especially macroeconomic policy coordination to achieve strong, sustainable and balanced growth. It includes how to cooperate and harmonize fiscal consolidation. It can also discuss the exit policy, co-operational monetary and fiscal policy and sensitive exchange rate mechanisms and other structural policy for rebalancing the global economy. In Toronto, because of the recent European fiscal problems, the leaders focus very much on the fiscal consolidation problems, but in Korea, probably we will discuss more on the other policy. Especially in the first half of this year, this framework was proceeded under the assumption that each country will cooperate policy options by groupings. For example, rather than

specified policy options by individual country level, in Toronto Summit, leaders focus on the policy recommendations by groups. For example, what kind of policy the advanced and surplus country has to adopt or what kind of policy the emerging deficit country has to adopt, such like that we focus on the policy coordination problems by grouping the countries. But in the second half of this year, the leaders decided to describe the policy options by country level. So, from the second half, we have to discuss what China has to do, what Unites States have to do, what Korea has to do to rebalance world global economy. As such, it is going to be much dispute and will cause heated debates and I think policy coordination may become politically more difficult, but on the other hand, it may have more meaningful result by November. So the first task was policy coordination, so called framework.

The second subject is international financial institution reform, such as IMF reform or World Bank reform. You must know the intention right. After the Lehman Brother's collapse, the global economy fall into the Great Recession and international institution such as the IMF or World Bank were heavily criticized for not preventing the crisis, or handling the crisis properly. So the leaders decided to reform those international institutions. The reform agenda includes capital increase because they mainly need more resources to help the poor countries or the vulnerable countries and the reform also includes new mandate because leaders want to revisit what kind of function they have to perform properly. And more importantly, the leaders decided to review their governance issues, especially for the quota or the voice reform because there was general understanding that those institutions' quota was more biased toward specific continent or some countries, so given the rise of many emerging economies there was a voice that government structure of the international financial institution has to be reform than revised. So this year in Toronto Summit, leaders have discussed about World Bank reform, and they finished quota shift from the overrepresented country to underrepresented country in the case of the World Bank. But IMF reform still remains as homework to us and in broadly speaking, leaders agreed to shift five percent of the IMF quota from the overrepresented country to underrepresented country but the details has to be solved by the November, in Seoul

Summit.

The third topic is famous financial regulatory reform, and needless to say financial market was one of the main causes of this crisis. And leaders call for the drastic reform and special regulation supervisory reform for the financial institutions. And in Washington Summit, they are listed forty-seven specific reform agendas and the timetables, and now the G20s are monitoring the progress of the financial regulatory reform. In Toronto, leaders focused more on the one subject which is financial burden-sharing, it is known more famously as bank levy, it is about how much and whether financial institution has to bear the cost of the bailouts during the crisis or for the future risk. We agreed to specify the broad principles for the bank levy in Toronto, so I think issue of the financial burden-sharing is generally completed. But in Seoul Summit, the other two important financial regulatory reform issues, one is prudential regulation issue, especially capital adequacy issue, so called Basel III, will be discussed; and second important issue is how to regulate the significantly(systematically) important financial institutions, so called SIFIs, and how to resolve them if they have problems. This two prudential regulation and SIFI issues will be the most important agenda in Seoul Summit's financial regulatory reform. So this three framework SIFI reform, financial regulatory reform, other legacy task that we have to deliver by November in Seoul is very important for us to have a concrete deliverable outcome by November.

During the height of the crisis, we witnessed extraordinary of the G20 countries in order to avoid another round of the Great Depression. So now, I think that expectation of the G20 has an effective fora which delivers real outcome well spread to general public's mind, but as the economic recovery is in progress, I think the urgency of the policy coordination seems to begin to erode and now many historians say that extraordinary policy coordination that we have witnessed in 2008 and 2009 maybe a historical aberration rather than a achievement of G20 countries due to the crisis. So if that is true, and if Seoul Summit fails to deliver the concrete deliverable outcomes in November, I think that Korea will be blamed in some sense. If that happens, I think that the legitimacy of G20 and effectiveness of G20 can be doubted too and we will

never know whether the G20 will continue or the new for a will emerge. That is the kind of things we really have to avoid from the point of Korean government because Korea is the first non-G8 country which host this kind of international forum. So, I may be too naïve to say this one, but I really hope that in Seoul Summit, we really want to demonstrate non G8 country has an intellectual ability to manage this kind of international forum and by doing so, we want to contribute to the global society. By showing our ability, to deliver these politically difficult outcomes in November, we would like to contribute and solidify the ground of the G20 as a premium forum for economic cooperation for the global society. So the first objective that we had to have deliverable outcomes for this legacy task in November and to demonstrate our ability to manage this important forum, we want to solidify the ground of G20 as a premium forum for international economic cooperation.

The second category which I call the Korean Initiative includes three subjects. One is so called global finance safety net; the second one is development; the third one is business summit. Let me explain what the global safety net means. After the Lehman collapse, actually at that time I was the vice chairman of the financial service commission and immediately after the Lehman collapse we checked our balance sheet and exchange rate positions and foreign reserves and economic condition in general. To speak frankly, I did not expect that we would suffer from the crisis as we suffered in 2008 by looking at the data. And I knew that after 1997, when we had Asia Financial Crisis, we paid high tuition and reformed our economy significantly; reduced average ratio of cooperation of government; reformed our financial market; introduced new exchange rate management system; increased foreign reserves, so we thought that we would not have very significant negative impact unlike the 1997. But I was wrong, and I could not sleep for three months. I had to check every morning what happened to New York not because our financial institution was weak but because we have to use dollar, the international currency. When the Lehman collapsed, financial institutions in advanced country has liquidity problem pulled out the liquidity from the Asia, especially Korea, because Korea has most liquid market. Because of this shortage of global

liquidity, Korea was not immune to the global crisis. Ironically, it was only the United States when they actually offered Fed swap lines, then our financial market became stabilized. So at that time we really realized the sorrow for not having international settlement currency.

From this experience, we want to propose that it is very important to have a global financial safety net which means that in the case of global financial liquidity shortage, we would like to have some insurance mechanism so that emerging economies which do not own international settlement currency can avoid this kind of spillover effect. What we have in mind is to make IMF to provide similar functions as the Fed did in 2008. Because Central bank has many reasons not to continue the SWAP lines, but as economy recovery starts Fed and most central banks start to withdraw their existing facilities for this kind of global liquid provision. And it will be pity if we just let them disappear without having any mechanism to guarantee this kind of liquidity provisions in the case of the emergency like Subprime crisis happen.

So what we are proposing is to mandate IMF and provide new functions to the IMF, to address this kind of problem. This mechanism is called global financial safety net. We made an significant progress and in Toronto Summit, if you read an communiqué, leaders agreed to study the policy options for global financial safety net and urges IMF to expedite its landing facility reform under this line. I think IMF is currently examining the landing facility, and we hope that we would achieve something by November. I think the need for global financial safety net is more strongly demonstrated by recent European crisis because many emerging economies are worrying about spillover effect from the European crisis. If we can introduce this global financial safety net, it can contribute to global society especially for those emerging economies and lower-income countries.

The second initiative we would like to propose is development. It is so natural for Korea to discuss this issue because Korea is the country which has transformed its economy from the aid recipient country to donor country within a one generation. We still have living memory of what the development means. I hope you agree with my assertion that Korea is in good position to discuss development issue. Also, we believe

that development is very important issue for the global economy rebalancing. If you look at the current economic condition, the biggest problem is that advanced economies, because they were severely hit by the crisis, I think it is the fair judgment that they cannot lead world economy as they did in last half century. In order to have strong growth in global economy, there might be alternative source of aggregate demand in the global economy to complement the drop of the aggregate demand in the advanced economies. Which means that the development and economic growth of the lower-income countries and middle-income countries is very important issue because realistically speaking, consumption of the emerging economies and investment, especially the infrastructure investment, to the lower-income countries may be the most likely source of the new demand for the global economy to compensate for the aggregate demand in the advanced economy. So development can cover so many things. For example, development issue under the G8 focus more on the aid-effectiveness; if it is a development issue by UN, they may focus more on the UN MDG which focus more on social dimension of development. But we believe under the G20, because G20 has mandate to be an economic premium forum for economic policy coordination so we believe that it is more natural for the G20 to discuss development issue from economic growth oriented approach. In November, in order to complement existing development issues we propose to discuss economic growth of the lower-income countries and middle income countries as an important topic for us to focus on. There are more specific contents on the development agenda, but given the time limit, I just mentioned general direction they want to go. So, in order to complement UN MDG approach, in order to complete GA's aid-effectiveness approach, in G20, we would like to focus on the economic growth of our lower-income countries and middle-income countries in November.

Finally, the last Korean initiative is Business Summit. On the margin of the G20's meeting in November 11th, we would like to have Business Summit together and we will invite about hundreds of world leading CEOs in Seoul and provide them opportunity to discuss about world economy situations with leaders. The intention is that now the current recovery is

being progressed, but economy recovery so far is heavily dependent on government expenditure and government led. But in order to have sustainable economic growth, we believe that private participation is very important, especially the investment from the business sector must now lead the economy and complement the fiscal side of the economic recovery. That is one objective why we want to have Business Summit in Seoul. The other objective is that the G20 is basically government-led and only leaders meeting, and there is no channel which private sector can convey the messages in global discussions. At this moment, we want to lead by example. So we want to propose Business Summit and if leaders think it is quite useful, we hope that Business Summit can be institutionalized as a part of the official channel which leaders can collect private sectors' voice. So in context-wise, we are trying to achieve concrete outcome in legacy task, we know that academic solution already exists, but its political will that determines whether we can achieve concrete outcomes for the three legacy tasks, framework, IMF reform, and financial regulatory reform, so Korea will try best to deliver political outcomes for this three important subjects so that we can contribute to solidifying G20 reputation. Also we want to extend topics for the G20. So far G20 has focused on the crisis management but in order to become real premium forum for economic cooperation for global economy, we believe that G20 has moved beyond crisis management and they have to prepare for the beyond crisis. That is why we are proposing New Korean initiative such as the global financial safety net and development. I know that many leading academics and institutions are here today. I hope that we can get full support from the institutions. If you have any comments or ideas we must have by November, I would appreciate greatly if you send us your opinions. The Seoul Summit is the first meeting that non-G8 country hosts this kind of important international forum. Thank you very much. ■