East Asian Politics and the Great G20 Game:

Convergence and Divergencein Chinese, Korean, and Japanese Approaches

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April 2011

EAI Fellows Program Working Paper Series No. 29

Knowledge-Net for a Better World

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Abstract

This paper focuses on the crucial efforts to reform global governance and rebalance the relation between global markets and institutions through the post-2008 G20 Leaders Summit. The paper introduces a framework to analyze the G20 game through three concentric circles: a first circle of risk management and economic problem solving; a second larger circle of global institution-building; and a third circle of power transition between OECD countries and emerging power (primarily from the US to China).

To analyze these battles, the paper focuses on the roles played by the three Northeast Asian countries in the G20: China, Japan, and South Korea. What are the sources of China's, Korea's, and Japan's preferences and behavior toward the G20 process? And what explains the weak degree of coordination among the three nations, despite some similarities in interests derived from fundamental balance of payment positions and creditor positions toward the US?

The paper analyzes the domestic sources of policy-making toward the G20 in each of the three countries and emphasizes two key variables: the domestic balance of power between bureaucratic actors (and related coalitions); and the autonomy of central political leadership. The paper argues that North East Asian regional cooperation so far is under-developed due to the politicization of the agenda and the lack of will to act on underlying convergence preferences. But the potential for coordination around shared interests is great in the coming years.

[1] The author acknowledges the support of the East Asian Institute for this research. This paper builds upon a larger research project on the role of China in Global Governance funded by the Social Science and Humanities Research Council of Canada (SSHRC). Research in Japan was made possible, thanks to the invitation as visiting scholar at the National Graduate Institute for Policy Studies (GRIPS). Research in France was made as an associate researcher with the Asia Centre (Paris) with the support of French Ministry of Foreign Affairs. The author also acknowledges wonderful research assistantship by Cheng-Yu Lin, Pascale Massot, and Chunman Zhang.

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Introduction

The world stands at a critical juncture. Global markets have expanded to unprecedented levels and now encompass an unprecedented number of actors. Global trade, global production networks, and global finance have now reached a scale, degree of complexity, and speech of change that they have become harder to model or predict. The global financial crisis of 2008 and the ensuing global economic crisis have revealed the acute need for global coordination at the top. Global markets require global institutions that operate within a larger anarchic international system. Today, the future of the global economy is plagued by uncertainties about the necessary underlying structure of global governance. We have reached a time of paradigm shift when both the norms and the institutions that have sustained global economic forces for fifty years are running out of steam and in need of a major upgrade.

In this context, the new G20 Leaders Summit has emerged since November 2008 as the most systematic effort since 1971 to rebalance the relation between market and governance and to establish an integrated structure of global governance. It has also become the key focal point of a new geopolitical "Great Game". At stake is not just the long-term sustainability of both the global financial and global trading systems and the balance between these two systems, but also the distribution of gains among nations and the transition of power from the US (and to a secondary extent Europe and Japan) to China and other emerging powers (India and Brazil).

This explains the surprising ability of the G20 process to exert such a gravitational pull over international relations in 2010. Suffice it to witness the intense diplomatic maneuvers in the two months leading to the Seoul Summit of November 2010. For example, the Beijing Summit between Russia and China, the October trip of Chinese Prime Minister Wen Jiabao to Europe, followed by the highly strategic visit of Chinese President Hu Jintao to Paris and other European countries early November, of US President Barack Obama's journey to India, Indonesia, and Japan in November all had significant focus on the G20 process. While the US was shoring support among India, Indonesia, Japan, and possibly Korea for its effort to force China to move on its currency, China was developing a strong strategic link with European powers as way out of the US coalition. Every summit was abuzz with hints of great bargains and coalition building with an eye to the G20 summit. The Seoul Summit was particularly salient, because of the strategic ability of Korea to act as a mediator between the US, China (and Japan) and between developed and developing countries, thus enabling the G20 process to move forward in a creative and vigorous way (Alexandroff 2010; Kirton 2010; McDonald 2010; Sohn et al. 2010).

This paper focuses on a crucial piece of the G20 search for global governance: a better understanding of the roles and preferences played by the three key Northeast Asian actors: China, Japan, and South Korea. Naturally, the three countries have a very different standing in the G20 big game. China has emerged as a global giant with the potential to replace the US as the preeminent global economic power around 2025. Its size and its ambitions are global by nature. For that reason, the US has toyed with the idea of a strong G2 condominium since the years of Hank Paulson as US Treasury Secretary. Yet, because such a condominium reduces China's options and makes it vulnerable to the still dominant US power, China has consistently refused getting locked into the G2 model. It is in part this refusal that gave the opening for the upgrade of the G20 in late 2008. As for Japan and Korea, they occupy a more similar position of middle powers with an anchor in the OECD, even though Japan can muscle much more financial power and owns almost as much US debt as China. Neither Japan nor Korea can aspire to global domination. Both thrive more as part of larger coalitions that can include the US, or Europe, or possibly China. As part of the OECD, they have powerful linkages to the rest of the OECD and great know-how, particularly Japan. Yet, as part of the East Asian economic sphere, they have deep economic ties and interdependence with China.

The positions of these three countries in the G20 game raise a key puzzle: while the last ten years have seen a trend of deep economic integration between them, joint participation in the Chiangmai Forex Swap initiative, and an intensification of trilateral summits, and while their positions as current account surplus countries with large US$ reserves put them in very similar positions, they have so far avoided any coordination in the crucial G20 game. Unlike European countries, or even the three North-American countries, this powerful North East Asian trio has played totally independently at the G20 table. The G20 does not even appear on the agenda of their trilateral summit in March 2011.

This paper thus raises the following two questions:

- *Given the recent increase in China-Korea-Japan coordination and leader summits (particularly in 2009-2010) and key similarities in balance of payment positions, what explains the apparent lack of cooperation in the G20 game?*
- *What are the key domestic and international drivers behind the choices and preferences made by each of the three countries in the larger G20 game?*

In response, the paper makes two claims. First, I advance the concept of three concentric geopolitical circles to better understand the G20 process: a first circle of risk management and economic problem solving; a second larger circle of global governance and institution-building; and a third circle of unequal distribution gains and power transition between OECD countries and emerging power (primarily from the US to China). Countries in the G20 game, particularly large stakeholders (like China) have to play the three games simultaneously, leading to the involvement of a large number of domestic actors with diverse interests.

Second, in dealing with these global questions, I argue that the country's position in the international system or global alliances (particularly links to the US) only explain part of the variance in G20 behavior. I hypothesize that both the positions taken at the G20 in the global governance battle and the intensity of voice expressed are connected to two domestic variables:

- leadership's autonomy (degree of centralization of decision-making in a unified leadership on G20),
- and the balance of power between ministries involved in the G20.

Regarding the low degree of coordination among the three countries around the G20, I hypothesize that it is related to weak regional institutionalization among the three Northeast Asian neighbors, and to the dominance of foreign policy considerations in the short term (and foreign ministries) over economic considerations (and economic ministries).

The remainder of this paper proceeds in three sections. Section I offers an overview of the stakes and difficulties involved in the current battle over global governance. Section II analyzes the three concentric circles and emerging power relationships within the G20 game. Section III reviews the potentially convergent underlying preferences on key issues of the G20 agenda and yet the persistent gap in official positions, making the case for weak regionalism. The section includes some preliminary findings on the key empirical battle lines of the G20. Section IV turns to the causal analysis of positions taken in the G20, presenting the general framework, as well as overviews of positions taken by China, Japan, and Korea on key thematic battle lines. Section V reviews the tactical positioning of the three countries in the most recent summits: Seoul 2010, Paris and Nanjing, 2011. In conclusion, I review the ebbs and flows in that coordination and to identify conditions for an increase in that coordination.

Global Governance and Hegemonic Transition: Hodgepodge in Flux

The rapid expansion of global markets and the exponential increase in the number of players in these markets over the past three decades have outgrown the capacity of their underlying infrastructure of rules and norms. This creates uncertainty and systemic risk. A case in point is the global financial system that experienced a near meltdown in the fall of 2008 (after another such moment in 1997-1998). Yet, all markets require a set of matching institutions that serve as rules of the game and coordination mechanisms (North 1990). Global markets require global institutions that operate within a larger anarchic international system. Thus, global institutions ultimately rely upon effective coordination among the key actors of the system, be it a unipolar system, bipolar system, or multipolar system. The need for such global coordination has significantly increased with globalization. This paper broadly refers to these global institutions of coordination and cooperation as "global governance."

In addition, we currently face additional demand for global governance on a novel set of issues that have reached critical mass and may put the future of humanity at stake. These issues are mostly externalities and public goods that market mechanisms are unable to address, at least without being nudged by global rules and sets of incentives. They include the challenge of climate change, global food safety, global health and pandemics, and the preservation of biodiversity. Here again, the functional need for global governance may be higher than ever in human history.

At the same time, global governance has become more difficult to achieve and less effective than at any time since World War II. The reason is simple. We are in the midst of a major underlying shift in global power or multipolarization. Within that trend, the most significant component is the great economic rebalancing that is taking place at the moment between the developed and the developing world and the ensuing rise of a few large emerging powers: China, India, Brazil, as well as Mexico, Turkey, Russia, and possibly South Africa (Friedman 2009). Of these rising powers, none is rising as fast as China. Most current economic and political models predict that the Chinese economy will reach the size of the US economy by about 2025 (or earlier if the Renminbi undergoes fast reevaluation) and may reach as much as double the size of the US economy by 2050 (Jacques 2009).

With such massive economic rebalancing, political and military rebalancing is certain to happen. By 2010, it is already clear that the relative power of Japan or European countries has gone down in the global picture, while the US has lost its hegemonic position. The most dramatic illustration of this *historic shift* is found in the OECD analysis on “shifting wealth:” after being stable for decades, the share of the world economy occupied by the OECD countries in PPP terms has suddenly decreased from 60% in 2000 to 51% in 2010. The OECD predicts that this share will fall further to 43% by 2030.[2]

Although twenty-five years later than initially expected and with a different process, we have now entered a post-hegemonic world (Keohane 1984). Within the larger rebalancing trend, we may also be witnessing a process of hegemonic transition from the US to China, with all its implications in terms of potential conflicts and systemic failures (Gilpin 1981; Kindleberger 1986). The expectation of this rebalancing in the future has a long backward shadow and has already changed the expectations of actors in the global system. In turn, actual behavior can be highly reactive to such expectations.

In this context of a global power transition, both respective capabilities and preferences are in flux. There is uncertainty about the actual degree of power transition that is going on, about the behavior of other major actors, and about the shape of the future system. Will rising powers such as China take their place within the current system of global governance, or will they seek to restructure this system to their benefit? Thus, the combined effect of multipolarization, potential zero-sum game calculations between existing and rising powers, and large uncertainty make global coordination more difficult than ever.

[2] Source: OECD (2010), Graph 0.6. Share of the global economy in purchasing power parity terms, 1990-2030, in *Perspectives on Global Development 2010*. doi: 10.1787/9789264084728-graph6-en

The combination of the increased functional need for global governance with the increased difficulty to achieve it can be seen as *the current global governance paradox*. Have we entered a new period similar to the early 1930s when hegemonic transition precluded the possibility of hegemonic leadership at the very time when it was most needed (see Kindleberger 1986)?

A definition of global governance

This paper takes a broad view on global governance. It defines global governance as the collection of international rules, treaties, and institutions that help states coordinate actions at the global level in the context of fragmented sovereignty and the absence of world government.

One may immediately observe that global governance amounts to a hodgepodge (*bric à brac*) of national rules, bilateral agreements, multilateral treaties, and international institutions.

As noted by Bradford and Linn, each domain "is a microcosm unto itself," has its own history, its own rules, and its own culture (Bradford and Linn 2007: 2-3). Thus, global governance is uncoordinated and lacks an overall architecture. In addition, in the post-Cold war era and particularly at the time of the post-2000 global rebalancing, it is in flux.

Why do we need more global governance now?

Global Governance has been required to solve the traditional problem of global markets (trade, finance), namely to provide minimum stable rules of the game, stability, and monitoring against cheating, while also playing a role in crisis avoidance.

Yet, there is an accrued role for global governance in our current period for two more reasons. First, as global trade and global finance have intensified, they have induced larger and more rapid shifts in wealth. They also have induced uneven gains of a larger scale than until now. Thus, there is an increase call for global governance to monitor and manage such consequences of global markets.

More recently, we need global governance to manage growing global challenges, such as climate change, food safety, global pandemics, or even the acceleration of global scientific innovation.

Thus, the current period can be seen as a critical juncture. Global uncertainties about the stability and sustainability of the current system of global finance and global trade in the context of an additional energy and food crisis have intensified the debate about the need to rejuvenate the post-war institutions that sustain globalization and to rethink our architecture of global governance (Alexander, Dhumale and Eatwell 2006; D. Andrews, R. Henning and L. Pauly 2002; Ba and Hoffmann 2005; Bradford and Linn 2007; Camilleri and Aksu 2002; Carruth 2006; Coleman and Pauly 2008; Cooper, English and Thakur 2002; Dawkins 2003; Desai, Said and MyiLibrary. 2004; Drache 2001; Fratianni 2005; Grande and Pauly 2005; Held and Koenig-

Archibugi 2003, 2005; Kazancigil and Senarclens 2007; Muldoon 2004; Nye and Donahue 2000; O'Brien et al. 2000; Pauly 2002; Ruggie 2005; Seidelmann 2005; Serra and Stiglitz 2008; Siebert 2003; Strange 1998; Tiberghien 2006).

The financial meltdown of the fall of 2008 has accelerated this debate further and key economists such as Joseph Stiglitz, Paul Krugman, Nouriel Roubini, and Dani Rodrik have proposed alternative blueprints for such reforms of the post-war regime. Some scholars have already emphasized the need for new approaches in managing globalization and have singled out the successful path taken by China in this regard (Rodrik 1999; Serra and Stiglitz 2008; Stiglitz 2002; Stiglitz 2006).

Classical Political Dilemmas of Global Governance

Global governance is hard to reach, due to at least four political dilemmas:

- It involves a classic collective action problem on a very large scale (Keohane 1984; Olson 1965). Given an increasingly large number of actors in a complex setting, monitoring behavior and avoiding cheating is problematic. The tragedy of the commons observed in climate change politics is a general problem for global governance.
- Distributional Dilemma: Global governance seeks to deal and stabilize uneven gains in global markets; yet in so doing, it has distributional consequences and faces opposition from actors who stand to loose or gain less than in the absence of global governance.
- Credible Commitment Dilemma: given that domestic politics are the primary arena for domestic leaders, their global commitments are always hard to trust. This in turn reduces the incentives for other national leaders to match commitments and commit themselves. The more unsecure some important national leaders are, the more likely a downward cycle of credibility and the more difficult it is for global governance. This is particularly true when advanced democracies are experiencing more instability, talks of democratic deficit and voter revolts than in past periods.
- Democratic Accountability dilemma: global governance is sufficiently removed from voters (multiple levels) that it is hard to make accountable to citizens (Keohane 2003). This weakens the desire of citizens to commit significant political capital to global governance. A particularly negative dynamic may take place when citizens in Western democracies believe that a major player such as China cannot be trusted, and when China reacts to this mistrust.

Global Governance and Hegemonic Transition

In addition to the traditional political dilemmas that plague global governance, the current global power transition creates additional negative incentives for the players involved. The key component is the dynamic of hegemonic transition between the US (as well as Europe and Japan to a secondary degree) and China. Indeed, the key model of global governance since 1945 has been a hierarchic one that was rooted in US hegemony and European and Japanese acquiescence to that hegemony. This hegemonic framework generated Bretton Woods and all associated institutions of global economic governance (IMF, World Bank, GATT-WTO, BIS) (Abdelal 2007; D. M. Andrews, C. R. Henning and L. W. Pauly 2002; Bordo and Eichengreen 1993; Eatwell and Lance 2000; Helleiner 1994; James 2001; Loriaux et al. 1997 among many others).

Since about 2000 and particularly the financial crisis of 2008, we have entered a period of rapid diffusion of power away from the US, Japan, and Europe, and toward China, India, Brazil, and others. Most visible is the rise of China and the likely process of hegemonic transition over the coming two decades, a process fraught with dangers and uncertainties, as the existing hegemon (the US) needs to deal with growing Chinese assertiveness (Gilpin 1981; Mearsheimer 2001).

This rapid power transition and the emerging mismatch between the power distribution and the enduring structure of Bretton Woods institutions is leading to tensions and paralysis within these institutions. Power transition creates uncertainty and increases the costs of coordination. The historical evidence on previous periods of global economic crisis or uncertainty have shown that the lack of management of the global economy by rising powers or the conflict between existing and rising powers over the management of the global economy could wreak havoc to the global system (Eichengreen 1992; James 2001; Kindleberger 1986; Strange 1998). One extreme consequence has been the debate over a possible G-2 condominium between the US and China as an expedient tool to solve these growing coordination problems (Bergsten 2008, 2009; Economy and Segal 2009). Another consequence has been the creation of the G20 summit of leaders in 2008 (after the initial creation of the lower-level G20 forum in the wake of the Asian financial crisis).

Theories and Approaches to Global Governance and Rising Powers

Under the conditions of power transition and increasing complexity, various theories of international relations lead to different analyses and predictions. Realist analyses lead one to expect increasing struggle between nations for dominance and control, and successful global governance only in the few arenas where the key players have convergent interests. From a realist perspective, it can be said that China would seek to counter the global hegemon (the US) and seek a new global system that is to its own advantage. Chinese participation in global governance, whether alone, or in coalition with others (such as the EU and Japan on biosafety) can be interpreted along these lines. A typical example of such a view is Walt's *Taming American Power* (2005).[3] Walt argues that the unprecedented power of the US in world affairs worries other states. They develop various strategies to cope with this imbalance. In particular, Walt identifies eight possible counter-strategies by other states: 1. Bandwagoning: attempts to deflect US power

[3] For other accounts, see Ikenberry 2002; Mearsheimer 2001.

through appeasement; 2. Regional balancing: the use US power to oppose local threats; 3. Bonding: the maintenance of close ties with the US, in order to shape US policy; 4.Penetration: attempts to manipulate democracy (Israel, Taiwan, Armenia, Greece); 5. Balancing: collaboration with others to resist the US; 6. Blackmail: WMD threats; 7. Balking; and 8. Delegitimization: the portrayal of US actions as illegitimate, venal, misguided. For realists, China would seek to project an alternative soft power (Cho and Jeong 2008; Nye 2004) to project its own norms or seek to drive a wedge between the US and its traditional allies (EU, Japan, Canada).

A liberal interpretation is more optimistic, seeing decentralized interdependence itself as a source of self-enforced stability (in the tradition of Angell 1910). Seeing the world through a liberal lens, China's actions can be interpreted as self-interested contributions to the provision of common infrastructures for trade, prosperity and welfare. Rising powers recognize the necessity for international cooperation in the provision of public goods (e.g., environmental protection, security).[4] As a transitional economy and increasingly a trading state with deep international linkages, China benefits directly from a stabilization of the global system through international institutions.[5] Chinese leaders are acutely aware that the dramatic global rise in China since the mid-1990s has benefitted from globalization, especially free trade and free FDI flows. Globalization has gradually incorporated China into a global network of production that blurs the boundary between its economic interests and those of foreign corporations or their host countries (Steinfeld 2010; Wang and Zheng 2008). Global governance is therefore a strategically attractive option to achieve solutions to problems that are inherently international. This approach would explain why China chooses to bandwagon or seek alternative superior multilateral options when necessary.

Liberal institutionalism predicts that global institutions can solve credible commitment problems and mitigate the tensions between states (Keohane 1984). But this leads to a chicken-and-egg problem as cooperation between those states is required in the first place to create the institutions that will induce more cooperation. One successful variant is the European neofunctionalist model where initially narrow (and not too costly) decisions by state leaders to cooperate can have sufficient leverage to spill over into larger cooperation and institution-building.

A third conventional approach is the constructivist school broadly conceived. Seen through such a lens, state preferences are influenced by socialization with other states or by global norms. These norms may be carried by civil society actors or by a diffuse world society.[6] In the case of China, there is some evidence of normative diffusion of neo-liberal norms in areas such as rule of law and legalization (Diamant, Lubman and O'Brien 2005; Lubman 1999; Potter 2001, 2006), intellectual property rights (Garcia 2003), and approaches to the market economy and privatization (Leonard 2008).

[4] Wood 1988.

[5] On the (neo)-liberal/functionalist logic for cooperation in the provision of public goods, see Haas, Keohane and Levy 1993; Keohane 1984.

[6] Meyer et al. 1997.

An alternative constructivist approach might be one rooted in Chinese norms and culture. According to such a theory (often presented by Chinese thinkers), China's behavior will be deeply shaped by its cultural norms and historical learning processes. In the word of one interviewee, Chinese leaders will ultimately follow a middle-of-the road approach that seeks mutual benefit and ritualization, following the traditional precepts from Confucius' Analects: "Benevolence, Righteousness, Manners, Wisdom, Sincerity" (仁义礼智信 – *Ren yi li zhen shin*).[7] In another citation from *Analects* 4-15, it is said that the gentlemen (or leader) ought to pursue a road that is sincere, fair, and forgiving (夫子之道, 忠恕而已矣- *fu zi zhi dao, zhong shu eryi liao*). Supporters of such a perspective can point out to the example of Zheng He, the great Admiral of the early Ming Dynasty, who commanded seven great expeditions between 1405 to 1433 across South-East Asia, South Asia, the Middle East, and Africa (Lee 2005; Levathes 1994). Although Zheng He controlled the largest naval armada ever assembled (up to 200 giant ships with the latest technology and tens of thousand of troops), including ships that would have dwarfed the ships later sent by the Europeans around the world, he did not take over or colonize any land. He established alliances with kingdoms (such as Malacca, Champa, or Kozhikode [Calicut]) and punished those who attacked him (such as the King of Ceylon), but he used his dominant power primarily to establish trade relations, affirm the legitimacy of the Chinese Emperor, and expand China's knowledge. After 1433, China destroyed the fleet and never followed up on Zheng He's legacy, content to run a distant tribute system with neighbors (Fairbank and Chen 1968; Segal 1990). This astonishing example contrasts with the European trajectory and is often used to show how domestic norms and historical legacies can shape state behavior in the international system.

A fourth approach in the IR literature uses domestic institutions or party politics to explain international behavior (Drezner 2007). However, most theories rely on electoral systems, interest group lobbying processes, or other democratic features that are not directly applicable to China. Other domestic approaches developed in the Chinese context are certainly more suitable. In one of the best books to date, Zweig, has shown that local states and interest groups have played a key role in developing liberal regimes toward FDI and trade (special economic zones)(Zweig 2002). Another very useful attempt is the recent study by Wang Gungwu and Zheng Yongnian to link Chinese domestic debates to China's global behavior (Wang and Zheng 2008).

Current Global Governance Regimes: a Preliminary Overview

Where does global economic and environmental governance stand today? A preliminary *tour d'horizon* reveals that disconnected elements of global or international governance have arisen over time since 1945, but that the de facto control mechanisms of these existing elements are currently in transition. Some domains currently lack effective global governance. All domains are currently in flux. There is greater instability than at any time since 1945.

[7] Personal interview, Tsinghua University, December 17, 2009.

Table 1. Overview of Global Governance Clusters as of 2010

Issue Area	Type of Global Governance	Locus of Power	Degree of Stability
Global Security	UN; Alliances	US Hegemony, Regional Powers	In flux, Low coordination
Trade	WTO, G8, G20	Quad facing G22 (China, Brazil, India)	Stable basis, in transition, paralysis
Currency	US Hegemony	US, China, Japan, EU	In flux, tensions
Finance	IMF, US-UK, G7, G20	US, UK, Japan, China	In flux, China rising
FDI	Bilateral FTAs	Diffuse	Fragmented
Climate	Kyoto P – UN context, G20	US, China, EU, BASIC group	Under negotiation, paralysis
GMO/Biosafety	UN Biosafety Protocol vs. WTO	US vs. EU, China and India balancers	Fragmented, disputed

One may observe that in all arenas, the US may remain dominant, but is not able to impose its choices on others. In particular, China's autonomy has increased sufficiently that it has obtained the power of veto in nearly all arenas of global governance.

The G20 Process: Three Concentric Circles and New Geopolitical Relationships

What makes the G20 game so important for all players and for the global economy is that it is the first meta-game since Bretton Woods in 1944 that is dealing both with global governance to frame global markets and with the distributional consequences of globalization. It is both a game about managing global risks or solving major economic problems and about a game meant to manage the rise of emerging powers in a non-destabilizing fashion.

Three Core Concentric Circles

The G20 game is so complex because it embeds three concurrent circles of tradeoffs.

The first circle consists in immediate technical priorities since November 2008, namely plugging regulatory holes in the global system, coordinating basic macro-economic policy in a time of global crisis, and managing global risks and uncertainties. This first layer is the one that attracts most attention and most analyses and is close to the agenda of the US, the initial host, or Canada (the June 2010 host).

This circle, however, operates within a second larger institutional circle: functionally, it may not be possible to solve the regulatory and risk management questions without building a larger institutional architecture, a so-called "New Bretton Woods" system (in the words of leaders such as Gordon Brown, Nicolas Sarkozy, Angela Merkel, or Manuel Barroso). Europe (with occasional support from Brazil, India, South Africa or some international institutions) has mostly championed this agenda (including 2009 host, the UK and 2011 future host, France). It is a larger effort to balance global markets with global governance and resolve the structural weaknesses arising from fragmented national regulations.

Yet, these two circles are themselves embedded inside a third larger circle: the fundamentally changing balance of power among key states. Current global financial and trade flows, as well as new regulations or larger institutions have distributional consequences. The current state of globalization is not just under-governed and under-regulated, it also allows an unprecedented transfer of wealth and power from hitherto developed countries to rising emerging powers. The primary dynamic at the center of this large rebalancing is the likely ongoing process of hegemonic transition from the US to China. In this context, emerging powers such as China, India, and Brazil have a high stake in the continuation of the global trading system, while also trying to embed their voice in the governance of the global economy. On the other hand, the US has an interest in ensuring that emerging institutions do not accelerate the power transition, and if anything can help slow it down. Barring this, the US may have an interest in slowing down the institutionalization of the G20.

As E.H Carr wrote in 1939, "the clash of interests is real and inevitable; and the whole nature of the problem is distorted by an attempt to disguise it" (Carr 1939: 60).

Triad at the Core of the G20

The G20 is often depicted as a new relatively equal game that is much more open that the old G7/G8 game and that has a genuine atmosphere of public good formation (Dervis 2010), even though outsiders are quick to denounce this apparent legitimacy (Ertel 2010). With its inclusion of the European Union, the United Nations, and, recently, representatives from both the African Union and NEPAD (Canadian and Korean summits), the G20 does have a broad coverage.

It should not be forgotten, however, that the initial formation of the G20 and the shaping of its agenda was the result of a European-American initiative (apparently initiated by French President Nicolas Sarkozy). The initial quid pro quo was European support for counter-recession deficit spending in exchange for an American promise of broad international financial regulations. It was clear, however, that international coordination out of the global financial crisis required the participation of the largest world creditor, China. Even though it also seemed necessary to include other major emerging powers and creditors (Russia, Brazil, India, Saudi Arabia) and that using the existing format of the G20 was the most convenient way of doing so, the core power structure of the G20 has been the European-American-Chinese triad from the start.

The initial four summits of the G20 were fundamentally a three-power game between Europe (the initial first mover), the US (the hegemon at the core of the system), and China (the future hegemon and emerging creditor of last resort). While the US has the power of veto and dominant voice in the G20 process, the actual linchpin may be China. Indeed, because Europe's interests are aligned with an ambitious institutional agenda in the G20, it finds itself on one side of the spectrum without true leverage. The US is on the other side of the spectrum, with a minimal interest in the G20. It needs to solve a few coordination problems but remains reluctant to be drawn in too far. China is de facto the median player that every coalition needs on board. In particular, the US needs China's cooperation the most on the currency or debt front and would be happy to settle with China in a G2 condominium. Because China sees the G2 as an unequal game, it prefers to embed its cooperation with the US into a larger G20 movement. Thus, China is able to draw the US into the G20. On its side, Europe will only be able to push its regulatory and institutional agenda if it can obtain China's support. This is the meaning of the tentative bargain reached between Sarkozy and Hu Jintao early November 2010. Yet, China remains prudent and is playing the game strategically. The future of the G20 remains uncertain.

In principle, Japan, India, Russia, and Brazil also matter as core players in the system. The reality in 2008-2011, however, is that those powers have been unwilling or unable to play a major role of power projection in the initial G20 process. In the case of Japan, convergence of interests with China (and others such as Korea) as the largest creditors of the United States could have led to deeper pan-Asian consultations and a louder Japanese voice. With holdings of US debt almost equal to those of China ($1.27 Trillion vs. $1.46 Trillion as of June 2009)[8], Japan has the financial power to play a major role. However, domestic political paralysis, as well as the thin and often fractious relation between China and Japan have prevented such cooperation and confined Japan to a more traditional role closely aligned to the United States.

In sum, the Washington summit can be seen as an initial Europe-US initiative. The London summit of March 2009 saw a fully operative triad with strong voices exerted by a relatively united Europe, a more assertive China, and the US. This triad continued to dominate the follow-up Pittsburgh summit in September 2009, the Toronto 2010 summit, and the 2010 Seoul summit, even though the G2 axis between the US and China seemed more apparent and the EU pole was often fragmented.

China as Pivotal Player

On many core issues, as shown below, the European and American poles delineate the spectrum of positions. Europe is arguing for stronger systemic financial regulations, for strong

[8] Source: US Treasury, "US TREASURY - INTERNATIONAL CAPITAL SYSTEM -- PART A: Foreign Portfolio Holdings of U.S. Securities (04-30-2010)", available at http://www.ustreas.gov/tic/shlhistdat.txt.

institutionalization, for less focus on fiscal stimulus and more fiscal discipline, and for more focus on energy and environment, while the US is mostly reluctant on those dimensions.

This puts China in a pivotal position. Both Europe and the US need Chinese support to tilt the balance toward their size. On dimensions of financial regulations or institutionalization, China is mildly located between American and European positions. It is sympathetic to European ideas of financial governance, even though its current capital and banking controls make the issues less salient for China. China can afford to be strategic. China's stronger interests lie in keeping the trading system open and stable, in defusing pressures over its currency management, and in gaining more voice in international institutions. Thus, China can engage in balancing negotiations with either side and has so far acted strategically.

Emerging Geopolitical Rules

Even though the G20 game is fluid and still in formation, it is possible to infer the following general rules.

1. The G3 triad at the core of the G20 dominates the agenda-setting and the pulling and hauling, as long as Europe is able to stick together.
2. Europe's power remains more fragile than China's or the US's. Europe's role depends on strong coordination between the three powers at its core: Germany, France, and the UK, with general acquiescence from the EU. This coordination ebbs and flows, even though it seems back in place at the time of the Seoul summit. On the other hand, this coordination was weaker during the Pittsburgh summit.
3. British elections in 2010 and the removal from power of one of the G20's main brain father, Gordon Brown, have weakened European coordination and European voice. To some extent, the Fall 2010 sees a return to common interests between Germany, France, and the UK, but it is a more fragile intra-European equilibrium.
4. Underlying coalitions in the G20 are in flux and vary across issue areas and during different summits. On financial regulations, Europe has obtained support from Brazil, Russia, and to some extent, South Africa and India against a reluctant axis that includes the US, Canada, Japan, and, initially China. On the issue of the global monetary system and the dominant role of the US, the debate pits France, Germany, China, and Russia against the US, Canada, Japan, and possibly Korea and the UK. On the issue of the undervalued renminbi, the initially broad axis including the US, Europe, Brazil, India, Canada, and Japan has probably weakened, following the successful trip of the Chinese president in France (and Franco-German coordination).
5. The G20 is large enough forum with a broad enough coverage to allow for grand bargains between finance, trade, and even issues such as climate.
6. Yet, following the 2010 mid-term elections in the US, the temptation is rising in the US to block daring regulatory initiatives in the G20. The US may be increasingly tempted to

ignore or belittle the G20 if it is unable to defend its interests and if the G20 becomes the instrument of post-US hegemonic governance. Keeping the US in will be the primary stake of the G20 and this priority may drive many of the key bargains. Only Chinese cooperation will eventually keep the US deeply involved.

7. The tensions between China and Japan (and between Russia and Japan) over the disputed sovereignty of outlying islands present a significant constraint. They reduce Japan's autonomy and voice in the G20 process.
8. For organizers and agenda-setters such as Canada, Korea, and France, their ability to leave their mark on the G20 process and to create a legacy depends on the quality of their mediation between the three poles of the Triad and especially with China and the US. No grand bargain is possible without such mediation.

Weak Regionalism: the Gap Between Underlying Preferences and Official Positions

Turning to the Northeast Asian triad, it appears that China, Japan, and Korea share a few fundamental underlying preferences with respect to the global financial system. Yet, it is also clear that their official positions or negotiation tactics do not always express such underlying preferences.

To place the positions of these three countries in a larger context, I first attempt to typologize the key dimensions of empirical debates within the G20 along a few key items and to locate the positions and preferences of key countries on these dimensions.

Overview of Lineups

In the following table, I code national preferences and interests toward key dimensions with an index ranging from 0 (to indicate no interest or opposition) to 1 (to indicate very strong interest). In identifying these dimensions and positions, I rely on press reports, as well as the few systematic evaluation reports that have been made on the G20 process (Rottier and Veron 2010; University of Toronto G20 Research Group (Netila Demneri and University Higher School of Economics (Moscow) G8 Research Centre (Mark Rakhmangulov and Yuriy Zaytsev) 2010). Ultimately, this remains a personal and tentative evaluation.

Table 2 vividly shows that the buy-in from the US and China in the G20 is relatively tenuous, in comparison to the preferences of other actors. The US has a few core priorities such as coordinating fiscal stimulus packages in 2008 and their continuation in 2009 to spur growth; or reducing the structural size of its current account deficit through joint actions and currency reevaluation. It also had an initial interest in minimal coordinated banking and financial regulations, but most of that agenda has been achieved by 2010. China has a broader set of interests related to the G20, but often

Table 2. Positions of Key Countries on Key Dimensions of the G20 Debates

	US	China	EU	Japan	India	Russia	Brazil	Can	Korea
Banking Regulations/ Basel	1	0.2	1	1	0.2	0	0.5	0.5	0.5
Financial Regulations	0.5	0.3	1	0.5	1	0.5	1	0	0.5
Transaction Tax	0	0.5	1	0.5	1	0.5	1	0	0
Macro-Economic Imbalances and RMB	1	0	0.2	0.5	0.5	0	0.5	1	0.5
Revamp Global Currency System, $ supremacy	0	1	1	0	1	1	1	0	0
Reducing Sovereign Debt / Deficits	0	1	1	0	1	0.5	0.5	1	0.5
Stability of Sovereign Debt financing	1	0	1	0	0	0	1	0.5	0
Trade-anti-protectionism	0.2	1	1	1	1	1	1	1	1
Climate & Energy	0	0.2	1	1	1	0.3	1	0	0.2
G20 Institutionalization	0	0.2	1	0	0.5	0	1	0	0.5
IFI Governance - change	0.5	1	0	0	1	0.5	1	0	1
Development	0	1	0.8	0.3	1	0.2	1	0.2	1

with lower intensity of interest than other players. On the other hand, the EU has strong interest in most dimensions. Ironically, this limits its leverage in the process.

The major fault lines in the G20 process can be summarized as follows in Table 3.

Table 3. Major Fault Lines in the G20

	High Financial Regulations	Low Financial Regulations
Macro-Eco coordination and Current Accounts	Brazil	US, Canada, Japan
Savings and Debt	EU	China

The US's key interest likes in the stability of financing flows into its bond market (to finance its twin deficits) and in keeping the global financial system working. As well, the US wishes to avoid tensions with rising powers and to keep the hegemony of the US$ for as long as possible. Canada, Japan, and possibly Australia have positions close those of the US.

China is the pivotal player once again. The G20 is only interesting for the US if it can deliver Chinese cooperation (as well as cooperation from India, Saudi Arabia, and Brazil) for its own priorities. The EU contribution likes in engaging China (and India) and securing their support for the G20, thus delivering US buy-in.

Annex I provides a list of key empirical issues in the G20 and some of the emerging fault lines between countries.

Discussion of Positions Taken by China, Japan, and Korea

As current account surplus countries owning large foreign reserves in US$, without strong financial centers, and with a shared vulnerability (expressed in the case of Korea and Japan, or potential for China) to volatile capital flows, the three countries share a lot of positional similarities. They also share a few key differences. Table 4 reviews those similarities and differences.

This rough evaluation of the positions of the three countries in the global economy and in the global financial system demonstrates their strong similarities, despite differences in size, maturity, and currency management. Informal interviews with bureaucrats or academics in all three countries show similar support for the continuation of the global free trade system and globalization; yet also similar concerns for the excessive volatility of global financial flows. All three countries are beneficiaries from the global trade and FDI flows, but less so from other global financial flows. One finds informal voices of support for a global financial transaction (or "Tobin") tax in all three countries. For example, in a recent article, Xia Bin, an influential member of China's Central Bank Monetary Policy Committee, argued that China could consider using a Tobin Tax to control hot money in the future.[9] The PBC (People's Bank of China) has had a long-running debate about the Tobin tax, supporting it in principle, yet worrying about distorting effects in the eventuality that only some countries adopted it. All three share in the so-called dollar trap recently denounced by Xu Hongcai, a department deputy director at the China Center for International Economic Exchanges (CCIEE). According to the *China Daily,* "he said the global monetary system had fallen into a "dollar trap". While it would be sensible to reduce dollar holdings in official currency reserves, nations cannot easily cut back, because doing so would only lead the dollar to weaken and so hit the value of their assets.[10]"

[9] Source: Xia Bin. 25 November 2010. "中国可考虑征收托宾税以抑制资本流入。"in 汇通网。

[10] Source: Rabinovitch, Simon. 3/31/2011. *China Daily*. "Global monetary system in 'dollar trap': Economist." Page 14.

Table 4. Review of Positional Similarities and Differences in the G20 debates between China, Japan, and Korea

	China	Japan	Korea
1. Size and impact	Global	Large	Medium
2. Development	in fast transition	mature	developed
3. Currency regime	Controlled, under-valued	Floating with rare interventions	Floating w/ interventions
4. Current account	Surplus	Surplus	Surplus
5. Forex reserves	$3 trillion, mostly $	$1 trillion, mostly $	$0.3 trillion, most $
6. Mainstream position on K flow volatility	Control (focus on domestic interface)	Concern	Concern
7. Global financial center	NO (except HK)	NO	NO
8. Raw material and oil dependence	High	High	High
9. Position toward globalization	Strong support	Support	support

Contrasting Table 2 and Table 4, however, one finds that the underlying positional similarities of the three countries have not translated into similar positions taken at the G20 summits. Empirically, interviews with participants also reveal the lack of coordination among the three countries. None of the three countries have supported regulatory European positions on a global financial transaction tax or on tighter global financial regulations. While China has spoken publicly since 2009 on the need to reform the international monetary system (IMS) and consider a new unit of reserve such as a revamped Special Drawing Rights (SDR) unit in the IMF, Japan and Korea have been numb on this issue. Meanwhile, Japan and Korea have joined the US in putting pressure on the under-valued renminbi. In the Paris G20 meeting of February 2011, Korea publicly clashed with China over the internationalization of the renminbi that was not coordinated within the Chiangmai agreements.[11] Meanwhile, on the issue of raw material prices and their volatility, China remained hesitant, while Japan publicly pushed for control and regulation in an attempt to internationalize its conflict with China over rare earths.[12] On the issue of global governance and the institutionalization of the G20 itself, positions vary again. While Japan is highly skeptical (preferring the G7), Korea is enthusiastic and China is mildly positive.

The only points of partial convergence among the three have been:

- support for the free trade system and avoidance of protectionism;

[11] Source: personal interview with top Treasury official, French Tresor, 2/21/2011.

[12] Source: ibid.

- some convergence on banking regulations between China, Japan, and European countries during negotiations at the Financial Safety Board (FSB) in the Fall of 2010;
- support for a strong development agenda and the safety net agenda of the Koreans (China and Korea mainly);
- and some support for the climate change agenda (Japan and Korea only)

In sum, while the positional preferences of China, Japan, and Korea share a lot of similarities, they have not coordinated their actions at the G20 until now and have actually taken divergent positions on most issues. In addition, none of three countries has chosen to strongly act upon their concerns for financial volatility or a $-based global monetary system.

Thematic Review: Objectives, Constraints, and Domestic Forces in each Country [to be extended]

This paper argues that the source of positions taken by key countries in G20 debates and global governance in general are to be found in domestic politics. In particular, three variables are particularly salient:

1. The balance of power between key interest groups (building on a classical approach in international political economy developed by scholars such as Peter Gourevitch and Jeffrey Frieden). Most important is the power of finance relative to the weight of global manufacturers. This variable is very important to explain the positions taken in countries such as the US, the UK, Canada, or many European countries.
2. In countries with a strong state bureaucracy, the balance of power between ministries is important in deciding the final national position. This variable is particularly relevant in the cases of China, Japan, and Korea. The key relationship is the triangle between the Ministry of Foreign Affairs, the Central Bank and or the Ministry of Finance (and the Financial Service Agency when relevant), and the Ministry of Trade. This balance of power determines if large foreign affairs concerns carry more weight than purely financial or trade interests. In the case of finance, the degree of autonomy between financial ministries and or central bank and the financial sector matters as well.
3. The third variable is the degree of autonomy of the top leadership, be it a president (Korea), prime minister (Japan), or 9-person standing committee of a politburo (China). What matters is the relationship between this top leadership and societal or private interests represented in the ruling parties and in the ministries.[13]

[13] For further theoretical analysis of leadership autonomy and its conditional factors, see Tiberghien 2007.

Overview of Causality in the Three Cases

In the three Northeast Asian cases, the first variable is less important, due to the weaker weight of financial interests relative to manufacturers and due to the relative insulation of the top bureaucracy (weaker in Japan).

The second variable is very important. China stands out with a stronger Ministry of Foreign Affairs that is able to place G20 diplomacy in a larger geopolitical game. Thus, Dai Bingguo, the State Councillor in charge of foreign affairs, and Yang Jiechi, foreign minister, have been actively involved in G20 negotiations (including the Sarkozy- Hu Jintao summit in November 2010). By contrast, the Ministries of Foreign Affairs in Japan and Korea have been less prominent on the G20 file. In China, the PBC has acted as a laboratory of new ideas and has been active; yet, its power remains limited. The Japanese central bank has been even less prominent.

The third variable determines whether a country is able to smoothly reconcile the diversity of positions represented by ministries and societal interests and is able to project a strong position. A good example of high autonomy is France under Sarkozy. Presidential systems tend to confer higher autonomy in international offers, although a Westminster parliamentary system (as in the case of Canada) can also have the same outcome. On this count, Korea scores the highest with a powerful and unified voice under president Lee Myung Bak in the Fall 2010. Japan scores the lowest, given the inability of a weak center (between 2008 and 2011) to centralize G20 policy-making and reconcile the large differences present between the several ministries involved. In fact, none of the Japanese prime ministers since 2008 have shown interest toward the G20. China falls in between, given the apparent yet partly unknown tensions existing within the nine members of the PBSC. On financial issues, Wang Qishan, the Vice Premier, seems to concentrate significant power and autonomy, as demonstrated in Nanjing on March 30, 2011, although the debates within the PBSC are not known.

Chinese Policy-Making in the G20 (to be expanded)

Chinese policy-making is fragmented and relatively open to a variety of influences. The leadership of the Communist Party (particularly the Standing Committee of the Politburo) stands as the ultimate principal; but it may or may not intervene into decision-making. On most technical issues, the outcome of policy-making is shaped by confrontations between bureaucratic coalitions that may include a range of other actors. There is also a growing trend toward deliberation and inclusiveness of public opinion in the name of "good governance" and administrative legitimacy.

Each policy arena is relatively fragmented and distinct from others. In most recent arenas of global governance, the intervention of political principals, namely the key leaders of the standing committee (nine key leaders at the moment) remains light, given the novelty and technicality of these arenas. For example, none of the top 9 leaders on the standing committee have good understanding of global finance; they tend to defer to advice from below and Vice Prime Minister Wang Qishan.[14] That leaves the stage open to competition between relevant ministries, academic entrepreneurs, large business interest groups, and other political relevant actors. These coalitions are distinct in each domain.

In sum:

- Global Governance is a novel issue area, where political preferences are only gradually emerging.
- China has a fragmented approach toward global governance, with only a few issues that are politicized and involve the political leadership; most others play out at the bureaucratic level, with significant inputs by academic or societal entrepreneurs and public opinion when applicable.
- Public participation is limited, given the technicality of most issues dealt with at the G20.

Chinese Priorities and Constraints at the G20

Based on the evidence of the G20 summits since 2008, four priorities stand out for China:

1. The stability of the global trading system (sustainability of globalization);
2. The relative stability of the global exchange rate system, accepting the need to gradually let the renminbi appreciate, but only in a controlled and gradual way – China seeks to avoid the fate of Japan in the 1980s;
3. More voice in the global governance system (eg voting rights at the IMF);
4. And more openness in the global monetary system to break away from the dollar trap and the unfair seignorage advantage enjoyed by the US with the $ (hence the talk of the spread of the SDR, launched by PBC governor Zhou Xiaochuan in March 2009).

In addition to those priorities, China has expressed concern for excessive global financial volatility but acting on this file is less urgent for China, given the presence of capital controls that protect China against the excesses of such volatility. Thus, China can afford to take time on this file.

To understand China's position, one must also consider China's key constraints. China primarily feels constrained by the weight of its domestic economic risks and the necessity to keep the growth rate going at 7-8% to enable its massive ongoing rural-urban migration to proceed without a major shock. The presence of a massive real estate bubble in 2011 also weighs heavily in the minds of Chinese rulers. Additionally, the question of global governance is a new one for Chinese rulers and thinkers. The dominant question of the last two decades was how to adjust to and fit into the existing global order (Wang and Zheng 2008). The reflection on how to shape it in concert with other great powers is a totally new question that has not fully matured yet.

[14] Source: Personal Interview at the Chinese Academy of Social Sciences, December 17, 2009. Beijing.

Japanese Policy-Making and Priorities in the G20

The creation of the G20 leaders summit has come at a time of political turmoil in Japan. The end of the 50-year rule of the Liberal Democratic Party (LDP) initially prevented Japan from showing political leadership in 2008-2009. But the instability created by the coming to power of the Democratic Party of Japan (DPJ) after August 30, 2009 has also translated into a lack of coordination capacity at the top with respect to the G20. As well, the DPJ has attempted to weaken bureaucratic leadership and inter-ministerial bureaucratic coordination mechanisms without providing strong leadership in return.[15]

Structurally, therefore, G20 policy-making in Japan in 2008-2011 has been characterized by:

- fragmented bureaucratic positions between MOF (IMF related issues), the FSA (banking regulations, financial regulations), the BOJ, METI (trade, energy, raw materials), and MOFA (overall foreign relations); in effect translating into a division of labor and the continuation of previously established positions without strong coordination and innovation;
- lack of interest by either prime minister Hatoyama or prime minister Kan, due to deep domestic political priorities and other dominant issues;
- and lack of top-down leadership around the prime minister.

As a result, Japan has supported existing positions on a number of files, including the defense of the global free trade system. On financial questions and other issues, the primary alliance with the US has dominated through the influence of MOFA and has led to Japan to take positions close to those of the US and against regulations. On issues such as rare earths, foreign considerations have led to Japan-China competition. Within MOFA or at the level of the prime minister, regional cooperation stands at a lower level of priority than coordination with the US. Japan has not used its global financial leverage in any proactive way to shape the future governance of the global economy.

Korean Policy-making (to be extended)

Korea has attached much importance to the G20 process right from the beginning in 2008, in part due to the new opportunities offered by this forum (in contrast to the G8 that excludes Korea). Korea successfully obtained the presidency of the G20 in 2010 (partly shared with Canada in the first half of the year). The conjunction of a presidential system and a visionary president on issues of global governance, Korea has played a proactive role in 2010 and has projected several new ideas on development and a global safety net, while attempting to mediate tensions between the US, China, and Europe (less successfully). Coordination with Japan, however, has been close to

[15] Sources: personal interviews with two retired high-ranking METI officials (January 24 and January 25, 2011) and with a senior official at MOF (January 21, 2011).

nil. Contacts with China have been more important, but very limited nonetheless, in part due to growing tensions between Korea and China during 2009-2010 over North Korea.

Korean priorities focus on free trade, development, and crisis management. On issue of global financial regulations, Korea has been less proactive and has remained close to US positions.

Tactical Positioning: Seoul 2010, Paris and Nanjing, 2011, Cannes 2011

[systematic comparison of positioning over last two years 2010-2011 to be developed with study of contrasts and variations over time]

Conclusion

The search for global governance in the context of hegemonic transition is shaping up as one of the crucial issues for the international system. The G20 lies at the core of all current efforts to establish a system of global governance that is both effective and legitimate. The G20 aims at fulfilling functional needs, but also at solving a fundamental institutional gap in the global economy. As well, it represents the key frontline in the current changing balance of power in the global system.

China is emerging as the linchpin of the G20 system, given that Chinese cooperation is the main lever to tie in the US into the process. Yet, the Chinese position in this debate is fluid and fragmented. This position is defined, issue by issue, and is shaped by domestic coalitions and the degree of public participation in each domain (Tiberghien 2010).

Following the Seoul Summit, the French presidency aims at enlarging the G20 agenda to the broad institutional question ("a new Bretton Woods", institutionalization of a G20 secretariat) and to issues such as raw material markets, energy, and climate), as well as the difficult debate on a global financial tax. It is likely that Korean skillful management and great positioning have delivered a legacy for the future of the G20. But managing the underlying power play of the US-China-European triad will continue to be a very difficult game. The future of the world economy and of our Earth depends on the success of this coordination.

In this context, the absence of regional coordination between China, Japan, and Korea stands out as one global puzzle, given their strong economic integration, similar positions in the global economy with respect to trade and financial flows (despite very different sizes) and some potential similarities in underlying preferences. The paper has argued that the paradox has to do with domestic political factors. In all three countries, the domestic balance of power between ministries, as well as between political leaders and societal forces has allowed foreign affairs to trump foreign economic interests. The situation presents an arbitrage opportunity for future political leaders who could turn the underlying similarities in preferences into real coordination and global power. In the absence of such coordination and given the relatively novel nature of these global issues for China, the G20 will have a hard time pushing the frontier of global governance and going beyond a large EU-US debate. ■

Annex I. Inventory of Key Issues in the G20

Cluster 1: Financial Regulatory Coordination

1. Banking Capital Requirements / Basel III Agreement

(by 2019, at least 7% of risk-free capital vs. assets)(could go as high as 9.5% during higher risk boom periods)

- will their be a Japan- China opt out?

2. Banking Regulations /Separation of Activities / Control of new Products

- one major recent shift: "Hu Jintao's China's president, backed reform at the G20, saying in an interview with a French newspaper published on Wednesday: "A reform of the international financial system is essential, implying stricter surveillance of international financial markets" (Jenkings 2010).

3. Bonus Regulations
4. Accounting Harmonization
5. Credit Rating Agencies
6. Bank Tax
7. International Transaction Tax
8. Derivatives
9. Hedge Funds

Cluster 2: Macro-Economic Coordination

1. Avoiding Recession (initial agenda)

2. Managing Sovereign Debt – Getting out of stimulus (Saving vs. Spending) / Boost National Savings (for deficit countries)

Germany, UK, Canada, China, Brazil , Aust vs. US (Fr, Italy?)

3. Global Imbalances and Currency / More domestic growth in surplus countries / more national savings in deficit countries

US, UK vs. Germany, Japan, Russia, China?

4. Currency Valuations and Movements (stabilize or not, devalue/revalue – currency intervention Yes/No)

China, German, S Africa vs. US, Japan, Canada

5. Monetary System – Future of the $ as Core Currency

France, China, Russia, Brazil, Germany vs. US, Japan, Korea

6. Global Financial Safety Net (Korean agenda)

"to counter capital-flow volatility and financial fragility to prevent the spread of future financial crises." (Alexandroff 2010)

7. Trading System Coordination (free and equitable global system) / Preventing Protectionism / Key natural resources-rare earths – Doha Round completion

US trump card vs. others

Risk of tit for tat reactions – global trade arms race

Cluster 3: Other Public Goods

1. MDGs & Development Leadership

2. Climate / Energy (phase out inefficient subsidies) (Toronto Declaration)

(Australia, India, Russia NO implementation on Energy)

3. Food Security

4. Innovation / Education

5. Corruption: United Nations Convention against Corruption (UNCAC)

(Germany, India, Japan, Saudi Arabia not initiated ratification – others OK)

Cluster 4: Institutionalization and Governance Framework

1. G20 Secretariat

EU, Brazil? Vs Canada, Japan (G8), US (G20 but loose), China (loose)

2. IFI Reforms / IMF Voting Rights

Emerging Powers + US vs. EU + Japan?

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Yves Tiberghien (Ph.D. Stanford, 2002) specializes in comparative political economy (Japan, Korea, China, and the European Union) as well as in international relations (global governance, globalization). Much of his work centers on the tensions between the pursuit of prosperity (the market) and the pursuit of democratic legitimacy.

His first book, Entrepreneurial States published by Cornell University Press in the comparative political economy series, and related articles focused on the way political leaders transformed the incentives of global capital markets into strategies of structural reforms. The result has been a variety of pathways in which countries, such as Japan, Korea, or France have reformed the post-war social contract. The book identified the crucial role played by political entrepreneurs, depending on degrees of political autonomy available to them.

Yves has been working on the puzzle of post-hegemonic advances in global governance and international law. The resulting edited book, written with Julian Dierkes, Minerva's Rule: Canadian, European and Japanese Leadership in Global Institution-Building (forthcoming, now under review) focuses on the role played by key "Minervian" (ie, neither Mars nor Venus) powers in advancing international institutions in the fields of global environment, human security, cultural diversity, and human rights. His most recent research project focuses on the role of China on the shifting global power and governance in the next decades. See the research section of this webpage in detail.

Yves has also written several pieces on the process of corporate and financial reforms in Japan in the wake of the collapse of the bubble in 1990. In his article "Navigating the Path of Least Resistance: Financial Deregulation and the Origins of the Japanese Crisis" for example, he argues that the Japanese government chose to deregulate its financial policy, which produced the least internal political resistance, and by which the government can respond to the international pressure, but it resulted in the unpredictable bubble economy because the deregulation was without appropriate readjustment and monitoring.

His new project, "Globalization, Inequality, and Political Realignment: The Emerging Clash Between Structural Reforms and Rising Inequalities in Japan" focuses on the effects the globalization on widening economic inequality in Japan. In this project, he examines whether, how and when the inequalities have been widened as the result of the globalization, and traces the ramifications of the subsequent government's economic policies in response to it, and further the public-government interactions concerning the inequality problems.

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- Typeset by Young-Hwan Shin