KOREA'S ECONOMY

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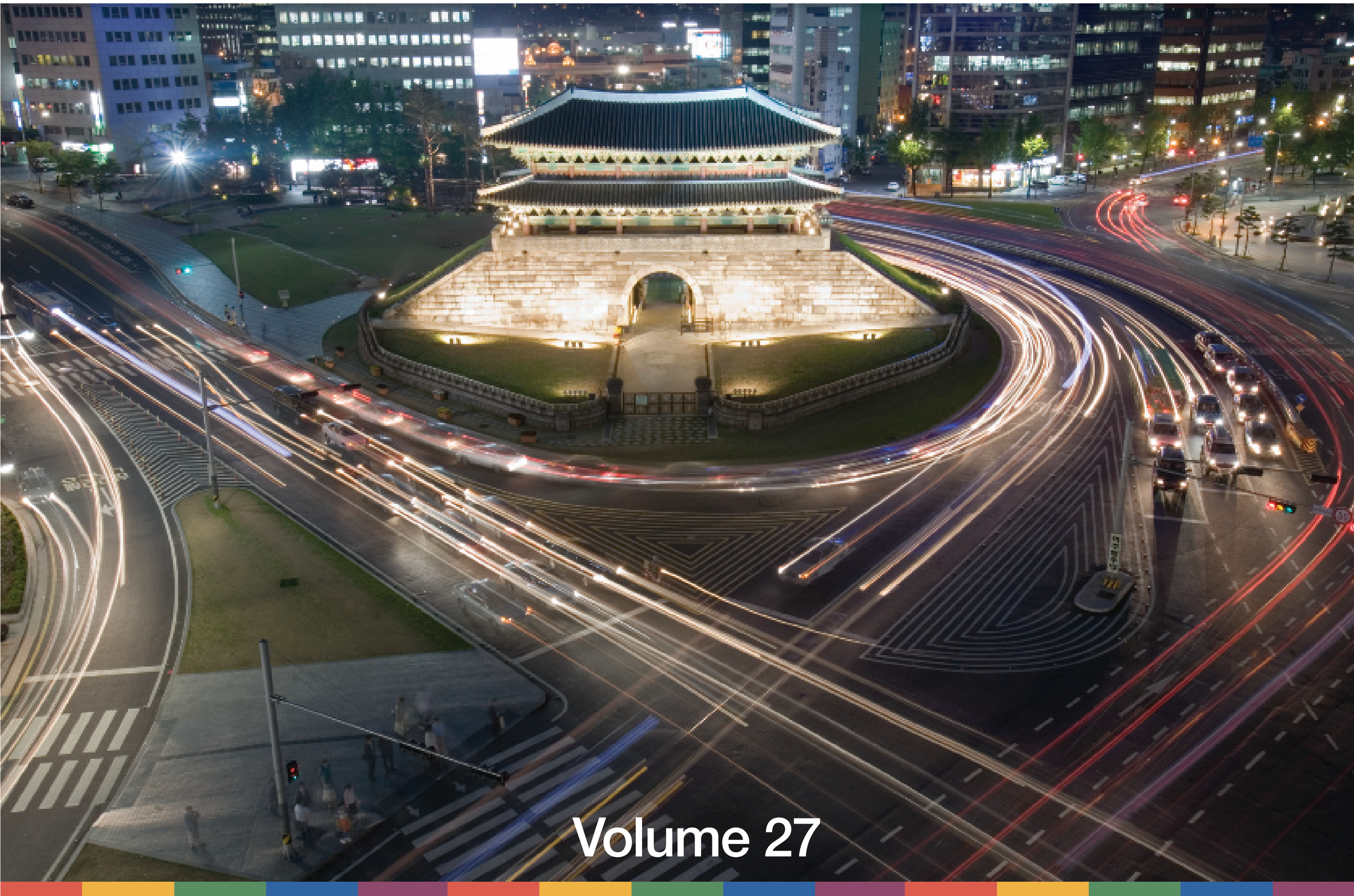

Volume 27

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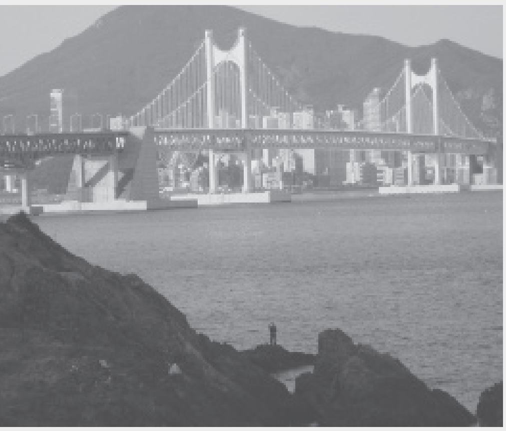

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Part I: Overview and Macroeconomic Issues

Part II: Financial Institutions and Markets - Focus on Green Growth

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Part III: The Seoul G-20

AFRICA AND SOUTH KOREA'S LEADERSHIP OF THE G-20

By Mwangi S. Kimenyi

The expansion of the Group of Eight (G-8) to the Group of 20 (G-20) was received by developing countries with high expectations and optimism. The expansion was considered an important step toward improving global economic governance in an increasingly globalized world.[1] The inclusion of emerging economies in global economic leadership was also seen as opening a platform for articulating positions and concerns of Africans and other developing regions. African nations were especially hopeful that South Korea's leadership of the G-20 would provide them with an opportunity to voice specific issues of concern that had hitherto not been given sufficient focus by the developed countries under the G-7 and G-8 regimes. Of immediate concern to developing countries were actions to deal with the global economic and financial crisis and sustaining long-term economic growth.

Although African economies were affected less severely by the global economic crisis than developed economies, the crisis did nevertheless adversely affect the continent's economic growth significantly. Prior to the global economic recession, Africa had experienced a decade of high rates of economic growth that averaged more than 6 percent. However, the crisis brought to a halt this decent growth rate and threatened to erode the gains made. While on average African economies grew by 5.4 percent in 2008, the growth rates declined sharply to 1.2 percent in 2009.

The crisis was transmitted to Africa primarily through the collapse of commodity prices and a sharp decline in the volume of foreign direct investment (FDI) and remittances. As such, those countries that are heavily dependent on commodity exports, such as oil and diamonds, and agricultural commodities, such as coffee and cocoa, were affected more drastically as the prices of these commodities experienced sharp drops. Countries that are less diversified experienced much sharper declines in their economic performance. The decline in economic growth in poor countries has, of course, had broader implications such as rising poverty and limited capacity of governments to provide basic services such as health and education. Overall, the crisis demonstrated how imbalances in the developed world could easily erode gains made in poor countries. In essence, the global reach of the crisis underscored the urgency of an inclusive global economic governance process.

Africa's Concerns and the Seoul G-20 Summit

The summit in Seoul is the latest in a series of periodic meetings convened by the G-20. In April 2009, in the midst of the global financial crisis, the group met in London. Obviously, much of organization's attention was spent on strengthening the financial system and restoring confidence and growth in the global economy. But it also made important strides for the developing world; this included a pledge of billions of dollars to multilateral development banks to lend to low-income countries to cushion the blow of the financial crisis and to lay the groundwork for future development. A few months later, after the crisis had been largely averted, the group met again, this time in Pittsburgh. There the group expounded upon and added to its commitments to the developing world. It promised to work to diminish the illicit outflow of stolen assets from low-income countries, initiated a task force with a goal of promoting financial inclusion and protection among the poor and affirmed its support of the Millennium Development Goals and the pledges of official development assistance. A few months later, another meeting was held in Toronto, where issues like financial exchange rates and trade protectionism were discussed and dealt with.

1. Izak Atiyas et al., *Think Tank 20: Macroeconomic Policy Interdependence and the G-20* (Washington, D.C.: Brookings Institution, April 2011).

Of course, these meetings weren't isolated. Prior to the G-20 summit in Seoul, African ministers of finance and central bank governors held a number of forums themselves and catalogued a range of issues that they considered crucial to the future of Africa. These consultative meetings were organized by the African Development Bank, the UN Economic Commission for Africa, and the African Union Commission. One such meeting was the Committee of Ten Finance Ministers and Central Bank Governors that was held on 6 October 2010 in Washington, D.C., under the chairmanship of the minister of finance from South Africa.[2] Other forums that discussed Africa's positions were organized by the African Economic Research Consortium and the African Growth Initiative at the Brookings Institution. At the G-20, the deliberations focused specifically on measures to support economic recovery, resources mobilization, and Africa's representation in the G-20.

The various consultative meetings outlined a wide range of policy recommendations and needs of the African economies. A primary concern arising from these meetings was the lack of sufficient representation for Africa in the G-20. It has been the position of Africans that Africa's participation in the G-20 should not be contingent upon invitations from the G-20 summit host. The position was expressed, and has been repeated at many meetings, that major decisions on global governance should not take place without representatives from the developing world. Issues pertaining to the World Trade Organization, the global financial crisis, and climate change have a great influence on the developing world. With a population of nearly one billion, Africa has only one nation—South Africa—that is a member of the G-20.[3] It has therefore been the position of African countries that if the G-20 is serious about bringing up the developing world to industrialized standards as well as leveraging their own economic growth it is necessary to have substantive African representation in discussions of global economic governance. This was one of the issues that Africans and, indeed, other developed countries hoped would be discussed and resolved during the Seoul summit. In particular, Africans hoped that the Seoul summit would accept the African Union's recommendation that Africa's participation be formalized within the G-20.

The other issue that Africans expected to be dealt with by the G-20 concerned the governance and effectiveness of international financial institutions (IFIs). There has been concern that Africa is underrepresented on the IMF Board of Governors, and that increasing the representation should be a priority. The Africans were optimistic that with the support of the G-20 an increase of the number of chairs on the boards of the Bretton Woods institutions would be fast-tracked.

The other major issue of concern to Africans that was raised at the various consultative meetings revolves around role of the G-20 countries in supporting economic recovery in Africa. Of particular concern were repercussions of policies implemented by the G-20 nations on the emerging markets of Africa. Specifically, there were concerns that the high-income countries were resorting to protectionist policies in response to economic recession in their own countries. The position of the African nations was that, while developed economies must do all they can to revive their economies and spur economic growth so as to increase the demand for goods from developing countries, protectionist policies should be avoided. Protectionist policies are particularly harmful to emerging markets and, as such, in order to encourage the mutual benefits of trade with Africa, Africans expected that the summit would specifically focus on this issue with a commitment for the G-20 nations to minimize protectionist inclinations. Such an expectation wasn't unreasonable; the same focus had characterized previous G-20 discussions.

In addition, it was the position of African economic leaders that in order to obtain sustainable and shared growth within Africa and between Africa and other nations, adjustments needed to be made to the wider

2. "Communique of the Committee of Ten African Ministers of Finance and Central Bank Governors Meeting," Washington, D.C., 6 October 2010), www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/C10%20Communique%20-English_Final.pdf.

3. Colin Bradford et al., *The G-20 Seoul 2010 Summit: Strengthening the Global Recovery* (Washington, D.C.: Brookings Institution, Global Economy and Development, November 2010).

macroeconomic framework. The outcome of the consultative meetings suggested that there should be a shift in emphasis away from a focus on stabilization and toward a greater focus on growth. As a response to the crisis, many G-20 states tended to focus primarily on the stabilization of their economies and less on growth. According to the African ministers of finance and central bank governors, stabilization has the potential to result in stagnation if growth is not recognized as a stabilizing force.[4] Instead, growth has the potential to increase the tax base among both developed and developing nations and stimulate investment at the same time.

The African policymakers recognize that economic recovery and long-term sustainable growth must involve more vibrant private sectors in the African economies. African countries have indeed made tremendous progress in improving the investment climate. It is much easier to do business in Africa today than it was just a few years ago. Unfortunately, one of the results of the economic crisis has been a substantial decline in FDI to Africa. Because Africa has a huge infrastructure-financing gap, FDI and public-private partnerships (PPPs) are viable options for infusing investments and supporting sustainable recovery. PPPs can be particularly helpful in combating the vast need for improved infrastructure. PPPs have the ability to work across nations and facilitate collaboration in order to improve the infrastructure needed to transport goods and open economies further. As such, African policymakers hoped that G-20 nations would play a vital role by encouraging such partnerships in the region.

Another issue of interest to African countries that is related to investments has to do with solutions to Africa's energy deficit. The energy deficit in Africa adversely impacts basic necessities such as education and health care services. African nations are placing heavy emphasis on the exploitation of clean energy, and it is the expectation of the African countries that the G-20 can assist in the extraction of much-needed energy resources by promoting renewable energy opportunities in the region. Thus, a broad expectation by Africans from the G-20 summit in Seoul was that there would be a focus on investments in Africa.

African nations were also concerned that, with the global economic recession, the G-20 may reduce assistance to the poor countries. External assistance in a variety of forms is a vital need for a number of African nations. This is even more the case during the current economic downturn. While the G-20 nations work to stabilize their economies, Africans hope that this should not be used to justify reducing levels of aid to those countries in critical need. Thus, Africans expected the G-20 summit to recommit to maintaining aid to these countries as well as to meeting previous commitments made by the G-8 countries.

" South Korea's G-20 leadership added two items to the summit's agenda that address some of the primary concerns facing Africa. The first is the issue of global financial safety nets, an issue of increasing importance to the rapidly globalizing African economies. The second is the issue of how to effectively engage emerging economies in the development process."

Another issue that has been of concern to Africans and that they expect the G-20 to focus on is the illicit flow of funds. Although Africa is extremely rich with many valuable natural resources, most of the revenue arising from these resources does not help Africans but instead ends up in developed countries as illicit flows. Global Financial Integrity, a program of the Center for International Policy, in 2010 estimated that total illicit flows from the continent during the past 39 years could be as high as $1.8 trillion. The report conservatively estimated that between 1970 and 2008 illicit financial flows from Africa were approximately $854 billion. Halting such illicit flows would greatly help in narrowing Africa's development financing gap. While a large part of this problem is the lack of transparency in Africa, G-20 countries also have a part to play in curtailing the flows. African policymakers therefore expected that the Seoul summit would tackle this issue and ensure that actions to stem illicit flows to tax havens are taken.

4. Thomas Fues and Peter Wolff, eds., *G20 and Global Development* (Bonn: German Development Institute, 2010)

African countries also expressed concern about global warming and the effect of climate change on the region. While Africa's contribution to the global warming phenomenon is relatively small, Africa stands to suffer greatly from its effects. African countries expressed the importance of increasing global efforts to combat climate change and the hope that the G-20 countries would abide by Copenhagen proposals to increase funding to Africa for climate change action. Overall, Africans had clear expectations from the G-20 Seoul summit. Most important, they expected the international community to minimize the possible occurrence of another global economic crisis. As such, Africans expected the G-20 summit to make concerted and coordinated efforts to consolidate the gains made and to sustain economic growth in their countries. South Korea's G-20 leadership added two items to the summit's agenda that address some of the primary concerns facing Africa. The first is the issue of global financial safety nets, an issue of increasing importance to the rapidly globalizing African economies. The second is the issue of how to effectively engage emerging economies in the development process. These two issues are of primary concern to Africa and were addressed in several ways during the G-20 summit in Seoul.

Seoul Action Plan and Africa

It is clear that many of these policy recommendations and suggestions were taken into consideration by the G-20 under Korea's leadership. Some of these recommendations were addressed directly while others remain unaddressed.

Monetary and Exchange Rate Policies

The Seoul Action Plan (SAP) outlines a range of policy recommendations that will influence the growth of African economies and other nations in the developing world.[5] First, the G-20 under Korea's leadership has stated its goal of allowing exchange rates to be flexible and determined by the market. This effort to institute price stability is important to African economies because of the damaging influence of price volatility. Although advanced economies are also affected by the overvaluation and undervaluation of currency, it is the smaller and more fragile economies that feel this burden the most. When African economies establish trade partnerships, they are at a considerable disadvantage if their trade partner is supporting an artificially overvalued currency. This imbalance undermines trade between Africa's developing economies and the more established economies. In addition, as Africa seeks capital investment for its many growing industries, it must be cautious of the stability of exchange rates. When loan providers support artificially high currency prices, they apply an unnecessary and unfair uphill battle for repayment. By making a stronger effort to identify and fight against exchange rate tampering, the G-20 will create greater incentives for investment and provide Africa's emerging economies a more even playing field for their growth.

Trade and Development Policies

In the SAP, the G-20 outlined its support for opening economies for free trade. It did this by explaining the importance of free trade and investment as a mechanism for helping in the recovery of the global financial crisis. Specifically, the SAP offers a list of areas it will focus on in order to help integrate developing economies into the global economic network. These areas are infrastructure, human resources development, trade, private investment and job creation, food security, growth with resilience, financial inclusion, domestic resource mobilization, and knowledge sharing. This list of priorities is crucial for helping African nations join the ranks of the major industrialized economies. From the perspective of African economic growth, these make up a highly relevant list of priorities. Infrastructure throughout Africa is poor as well as scarce and is a major hindrance to bringing product to market domestically, within the continent and abroad. Human resources development, such as support for primary and tertiary education, has been shown to facilitate greater political stability, a more advanced economy, and a greater level of entrepreneurism.

5. "The G20 Seoul Summit Leaders' Declaration; November 11–12, 2010," G20 Seoul Summit 2010, http://media.seoulsummit.kr/contents/dlobo/E1._Seoul_Summit_Leaders_Declaration.pdf.

Financial Reforms

While the African nations did not suffer as greatly as the developed Western nations in net terms, the developing world has more to lose in proportional terms simply because of its fragility and size. It is for this reason that African economies are enthusiastic about the G-20's efforts to institute the financial reforms stated in the SAP.

The SAP states that the advanced economies will implement growth-friendly, medium-term fiscal consolidation plans that are in line with the Toronto commitment. The G-20 rightly chooses to recognize the influence of declining confidence and states that it is determined to act swiftly. This action is coupled with an effort to increase financial reforms both within nations and among the collective financial community. The SAP also states that it is going to address the issue of international corporations that are considered too big to fail.

These provisions are much needed in the international financial community. Today there is a dangerously unregulated system of international corporations that have the ability to cripple the global economic system. This was seen clearly during the most recent financial crisis. An effort on behalf of the G-20 to identify and break up corporations that are too big to fail would help reduce the level of uncertainty among nations and economies attempting to partner with large international corporations. Under the current system, African nations exist under the threat of partnering their tenuous growth with corporations that may in fact prove to be too big to fail. This increases the level of risk on behalf of investors who are concerned about the influence of large corporate interests in Africa's financial system. For this reason, the African economic system would benefit from the leveling of the playing field by breaking up large corporations with the ability to cause widespread panic through the global financial system.

In addition, the G-20 under Korea's leadership should be applauded for its list of efforts to address the issue of too-big-to-fail corporations with a clear multifaceted framework. This framework includes giving systemically important financial institutions (SIFIs) and global SIFIs a much larger capacity for absorbing financial shocks. In this way the G-20 is correctly supporting the idea that SIFIs should have insurances to account for the risk of their financial collapse. Protections in the form of absorption capacity for the failure of SIFIs must be equal to the size of their potential failure.

The G-20's efforts to institute financial reforms also include increasing the level of international financial safety nets. As nations become increasingly interconnected, it is vital that we create provisions to reduce the level of contagious collapse. During the last financial crisis, many countries that were relatively stable became victim to a contagious collapse of confidence. African nations are highly concerned that, as they continue to grow and interweave their economies with those of their trade partners, they may also be opening themselves to critical vulnerabilities. The recommendations made by the G-20 can be taken into consideration by the developing African nations with a growing need for financial regulations. The G-20 notes the importance of financial oversight. The responsibility for the provisions for oversight must fall partly to the hands of the G-20 as a common institution with the ability to apply recourse and incentives for cooperation.

The G-20 Seoul summit recommended that finance ministers and central bankers formulate policy options that will strengthen the global financial system and help reduce the likelihood and severity of future financial crises. This effort is worthy of applause and must be followed up with diligence. The G-20 holds the role of facilitating the collaboration of the global financial experts, and the blame for failing at this task will partly rest on the shoulders of the G-20 as an institution.

Outstanding Issues of Concern

There is no question that the Seoul G-20 was a great success, and Korea's leadership deserves a great deal of credit for addressing a wide range of pressing issues. In addition to the issues that developing countries themselves wanted addressed, Korea also offered specific proposals that are of great importance to the African countries and other developing countries. In this respect, Korea's leadership must be commended. Nevertheless, there are several areas that demand greater attention with respect to the emerging African markets.

African inclusion. An issue that went unaddressed by the G-20 under Korea's leadership was the future inclusion of African nations in G-20 discussions. African economies succeed and suffer along with the nations of the G-20 while not being offered a voice to participate in the conversations affecting their fate. It is the strong belief of African nations and the developing world that greater inclusion would result in greater coordination and more equitable outcomes for all members.

Support for political transition. Several African nations have recently gone through dramatic shifts in political leadership, while others either exist in turmoil or on the precipice of violence. The goals and missions of the G-20 cannot take place in these countries until violence ceases and political order has been achieved. Support from the G-20 members to freeze the assets of those involved in propagating violence must be a priority for this institution.

Illicit flows. Unfortunately the G-20 did not act on the policy recommendations by many African leaders regarding the illicit flows out of Africa. Africa's wealth of natural resources is often taken from developing nations illegally while African economies struggle to leverage their growth. African leaders hope that the G-20 will choose to address this highly important issue in the future and await the support of the G-20 in Africa's fight against illegal extraction of resources.

Fossil fuel and commodity price stability. Many African nations rely heavily on their export of fossil fuels and mineral commodities. As these economies set long-term development plans around the prices of their valuable commodities, fluctuations in price can impose destabilizing pressure on an already precarious economic situation. To facilitate stable and reliable growth in the region, the G-20 must use its collective action to set stable commodity prices. By setting predictable prices for fossil fuel and mineral commodities, the G-20 assists the development of African economies by reducing the risk of investment on behalf of commodity investors domestically and abroad.

Green growth investment. The G-20's SAP outlines its support for addressing climate change and its origins. To facilitate this initiative, the G-20 could make additional efforts to offer incentives to those nations that make climate change a national priority and make considerable efforts toward this end.

By all means, the G-20 under Korea's leadership deserves applause for its accomplishment. Much remains to be done, but there is now tangible evidence that expansion of the G-8 to the G-20 is bearing fruit. However, more substantive inclusion of Africa in the G-20 needs to take place, and the reform of the IFIs needs to be fast-tracked.

Mwangi S. Kimenyi is a Senior Fellow and Director of the Africa Growth Initiative, Brookings Institution, Washington, D.C.

Selected Commentary

Korea and the World Economy
C. Fred Bergsten, Peterson Institute for International Economics

Korea's Challenges and Opportunities in 2011
Chae Wook, Korea Institute for International Economic Policy

A Reflection on the Seoul Summit
Paul Volcker, Former Chairman of the Federal Reserve

The G-20: Achievements and Challenges
SaKong Il, Korea International Trade Association

Korean Green Growth in a Global Context
Han Seung-soo, Global Green Growth Institute

Korea's Green Energy Policies and Prospects
Whang Jooho, Korea Institute of Energy Research

Additional Commentary and Analysis

Korea: Economic Prospects and Challenges after the Global Recession

Achievements in Seoul and Korea's Role in the G-20

Africa and South Korea's Leadership of the G-20

Korea's Green Growth Strategy: A Washington Perspective

An Ocean in Trouble, An Ocean of Opportunity

System Architecture for Effective Green Finance in Korea

Economic Implications for South Korea of the Current Transformation in the Middle East

Korea-Africa: Emerging Opportunities

U.S.-Korea Economic Relations: A View from Seoul

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1800 K Street, N.W
Suite 1010
Washington D.C., 20006