

# **G20 and Korea's Vision**

“Sharing Experience in G20 Cooperation between Korea and Turkey”

March 13, 2015

## Initial Phase: 2008 to 2010 H1

Agreements reached on how to respond to the crisis. Pledged to take forward work in the following broad areas:

- Developing framework for strong, sustainable and balanced growth; including mutual assessment of policy (MAP) frameworks
- Repairing and strengthening international financial regulatory system
- Modernizing global institutions (and IMI) to reflect today's global economy
- Strengthening support for the most vulnerable
- Putting quality jobs at the heart of the recovery
- Promoting an open global economy

## Second Phase: 2010 H2 to 2012

European developments have taken the center stage; and with it the importance of growth friendly fiscal sustainability and job creation. Other aspects have continued to hold:

- Strengthening international financial regulatory system (more expanded to include other areas such as OTC, CDS etc)
- Repairing global financial system to restore lending
- Modernizing global institutions (IMI) to reflect today's global economy
- Strengthening support for the most vulnerable
- Putting quality jobs at the heart of the recovery

## Third Phase: 2012 to 2014

Reaching consensus on the problems and devising growth strategies to enable durable global recovery and resilience; efforts to redefine the role and scope of the G20. A few details:

- Continued effort to ensure global financial stability
- Strengthening international financial regulatory system
- Introducing policies to address cross border policy arbitrage (BEPS)
- Putting quality jobs at the heart of the recovery and female participation
- Climate change, energy architecture, and development
- Investing in infrastructure and promoting trade facilitation.

# Fourth Phase 2015-Future

Getting out of the global recession  
Through:



**Implementing** committed growth strategies, mindful that it has to be **inclusive** to be sustainable and underpinned by **investment** and financial stability

## COLLECTIVE ACTION FOR INCLUSIVE AND ROBUST GROWTH

### INCLUSIVE AND ROBUST GROWTH

ENHANCING  
RESILIENCE

STRENGTHENING  
RECOVERY AND  
LIFTING POTENTIAL

BUTTRESSING  
SUSTAINABILITY

FINANCIAL REGULATION

INT.FINANCIAL ARCHITECTURE

INTERNATIONAL TAX

ANTI-CORRUPTION

MACRO POLICY COORDINATION

INVESTMENT

EMPLOYMENT

TRADE

DEVELOPMENT

ENERGY

CLIMATE CHANGE FINANCE

SMALL AND MEDIUM SIZED ENTERPRISES

LOW-INCOME DEVELOPING COUNTRIES



**Korea's vision overlaps with the key thrust of the proposed agenda**

- Ensuring Korea's interests are properly reflected
- Providing intellectual contribution to the G20 agenda

## Excerpts from a note sent from Korea to Russia in 2013

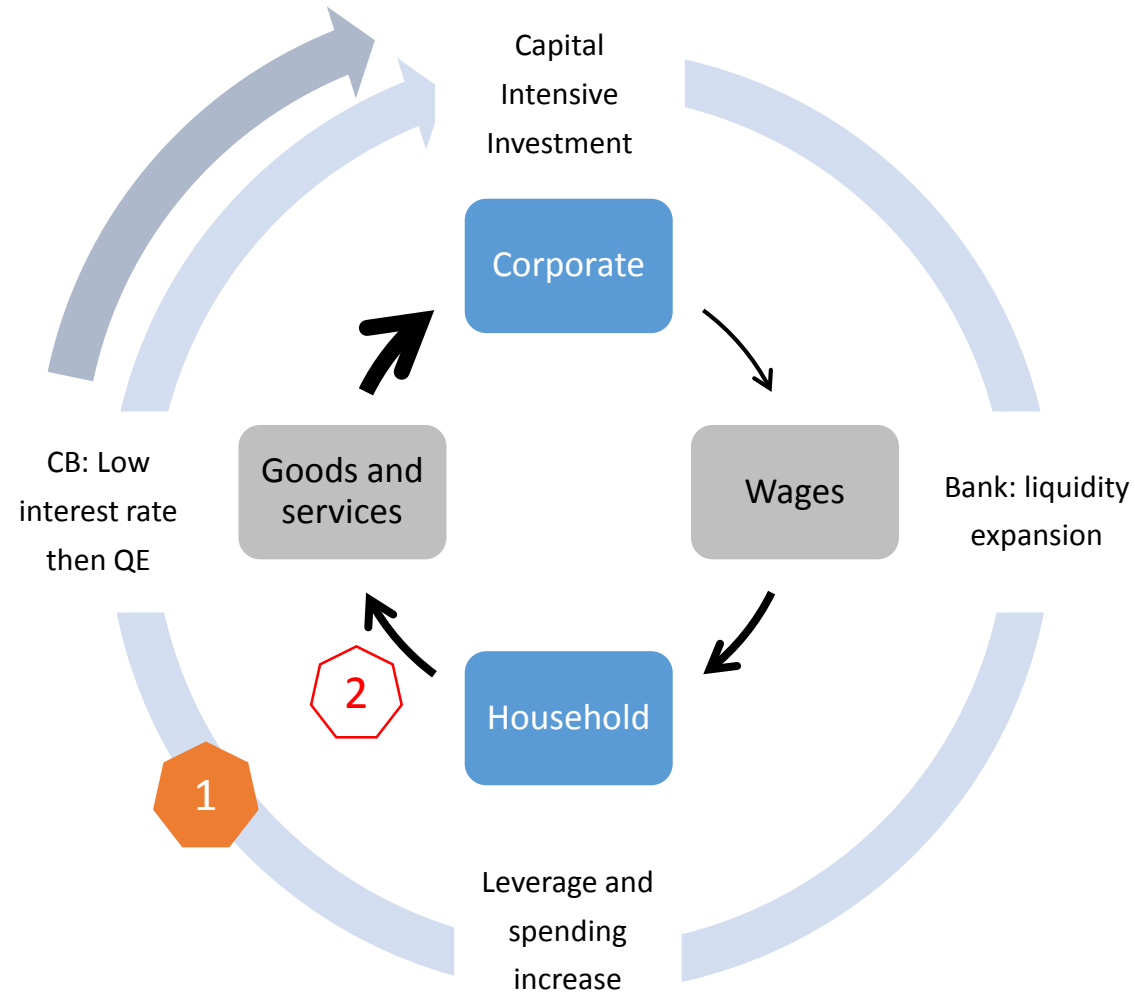
... growth is vital for gaining the upper hand in the debt dynamics in advanced economies, in ensuring continuous lifting of living standards in EMs, and gaining any meaningful reduction in poverty in LICs.

With **the objective of reducing income inequality and unemployment (job creation)**, and hence attain sustainable, strong and balanced growth, **possible deliverables that leaders could commit** could be shaped along the following broad ideas.

- Macroeconomic policies should give due consideration to their **impact on income or wealth disparity**;
- As a start, countries could review their economies to identify what structural distortions or weaknesses are currently impeding the **proper functioning of the market** (and participation of all economic agents in economic activities).
- In subsequent years, policy formulation and implementation, including coordination to **avoid policy arbitrage** could be considered.

# Is widening income disparity slowing demand?

## Income disparity between corporate vs. households and among households

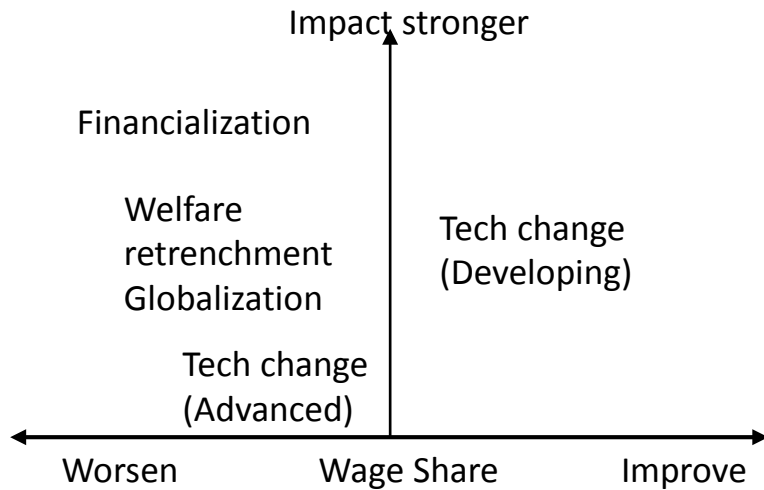


Source: From a presentation by the author at the Sherpa meeting in 2013

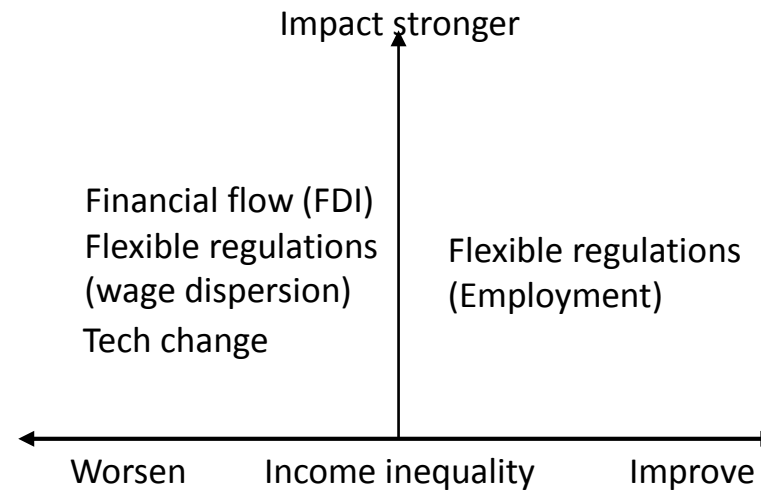


# Causes of widening income inequality: Empirical studies by relevant institutions provide useful insight (quotes from ILO and OECD studies)

## Wage share (ILO study<sup>1/</sup>)



## Income inequality (OECD Study<sup>1/</sup>)



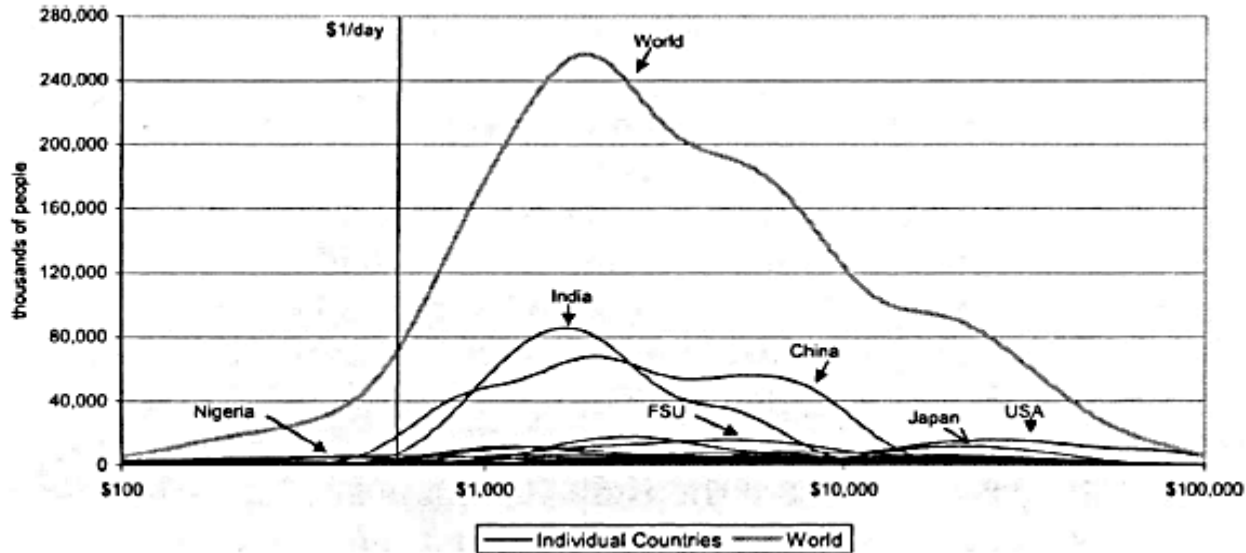
Source: From a presentation by the author at the Sherpa meeting in 2013

1/ Why have wage shares fallen? A panel analysis of the determinants of functional income distribution, Conditions of Work and employment Series No. 35, ILO 2012  
Using a new ILO/IILS dataset on adjusted wage shares for a large group of developing and advanced economies:

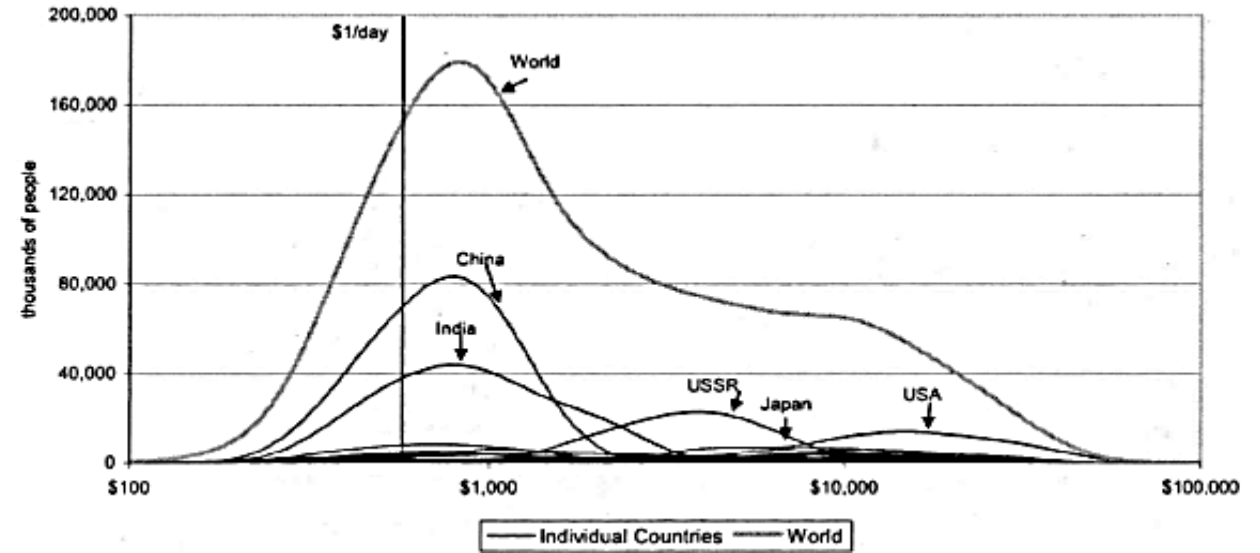
1/ An Overview of Growing Income Inequalities in OECD Countries: Main Findings, OECD 2011  
2/ "affects the ways in which globalization and technological changes translated into distributional changes"

# Rapid growth in EMs has introduced a major shift in income levels and employment conditions across the world

The WDI and Individual Country Distributions in 2000

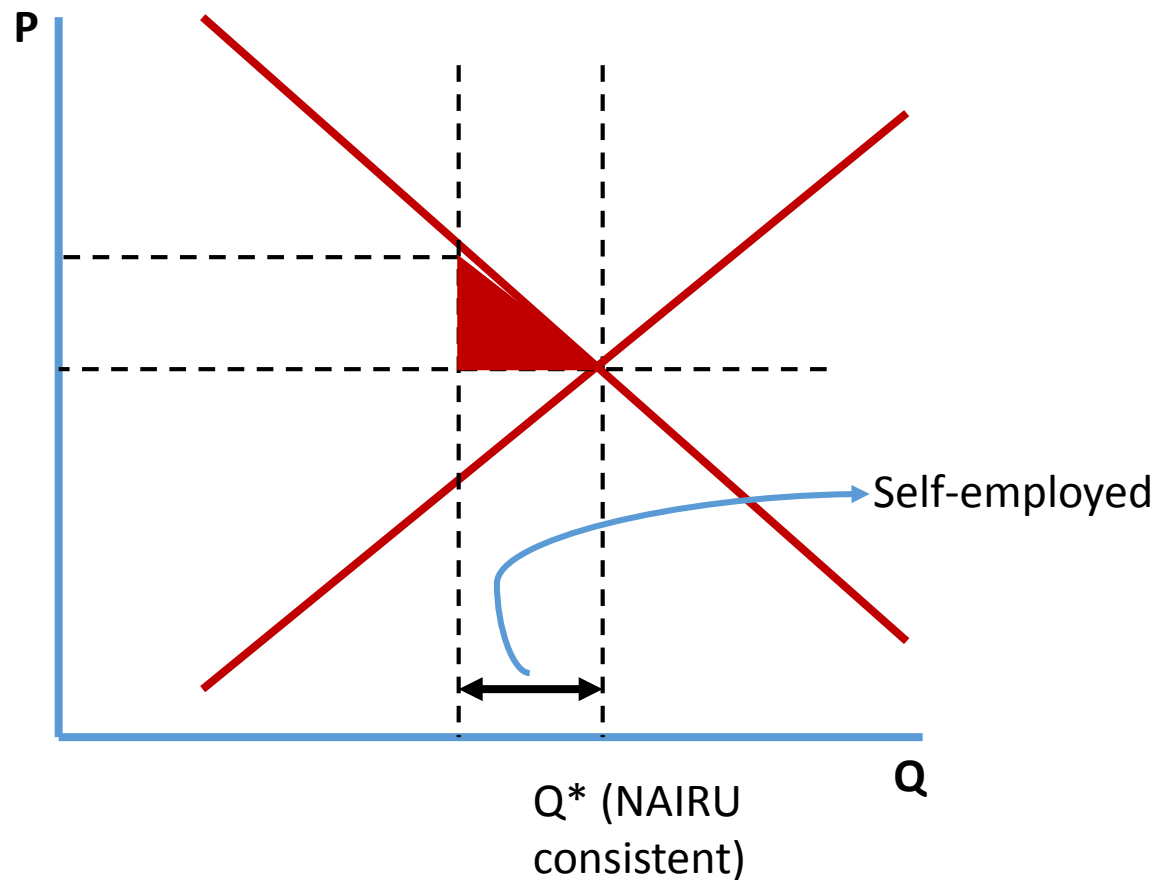


The WDI and Individual Country Distributions in 1970



The World Distribution of Income: Falling Poverty and... Convergence, Period  
 Author(s): Xavier Sala-i-Martin  
 Source: *The Quarterly Journal of Economics*, Vol. 121, No. 2 (May, 2006), pp. 351-397

# Lack of competition; skill mismatch, and higher access threshold could all impede full employment and push down productivity

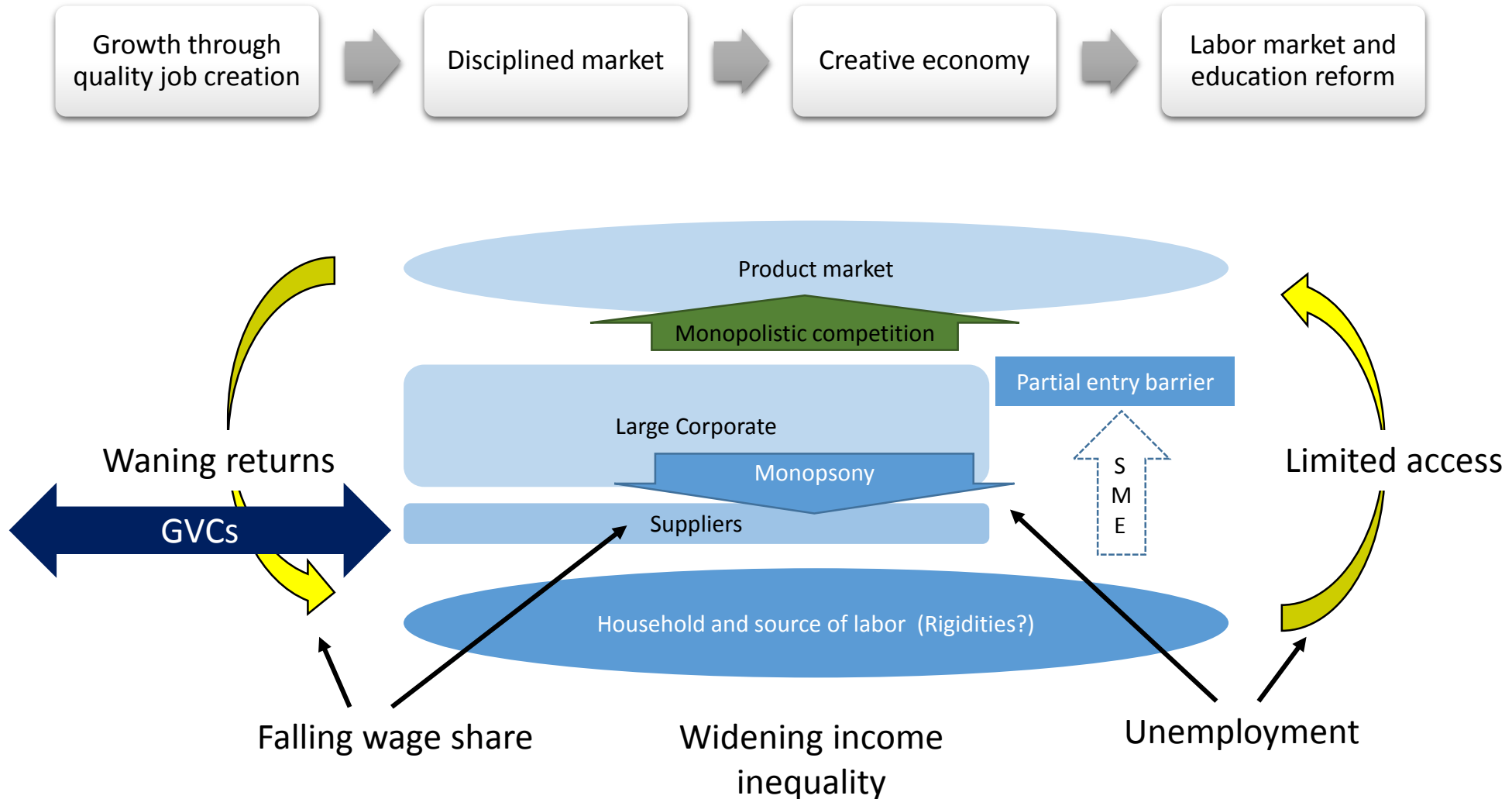


“Antitrust law has a strongly positive effect on economic growth” ... might be due to antitrust laws designed to promote economic efficiency rather than to prevent economic concentration. <sup>1/</sup>

Productivity increase in SMEs and conducive environment for all businesses

Finding new sources of growth, especially through tapping on the imagination of the youth of this generation

# Policy priorities during implementation



# Creative Economy

- Create an environment where creativity is encouraged, including start ups
- Ensure financial support is available
- Protect intellectual property right and ensure proper pricing of creativity

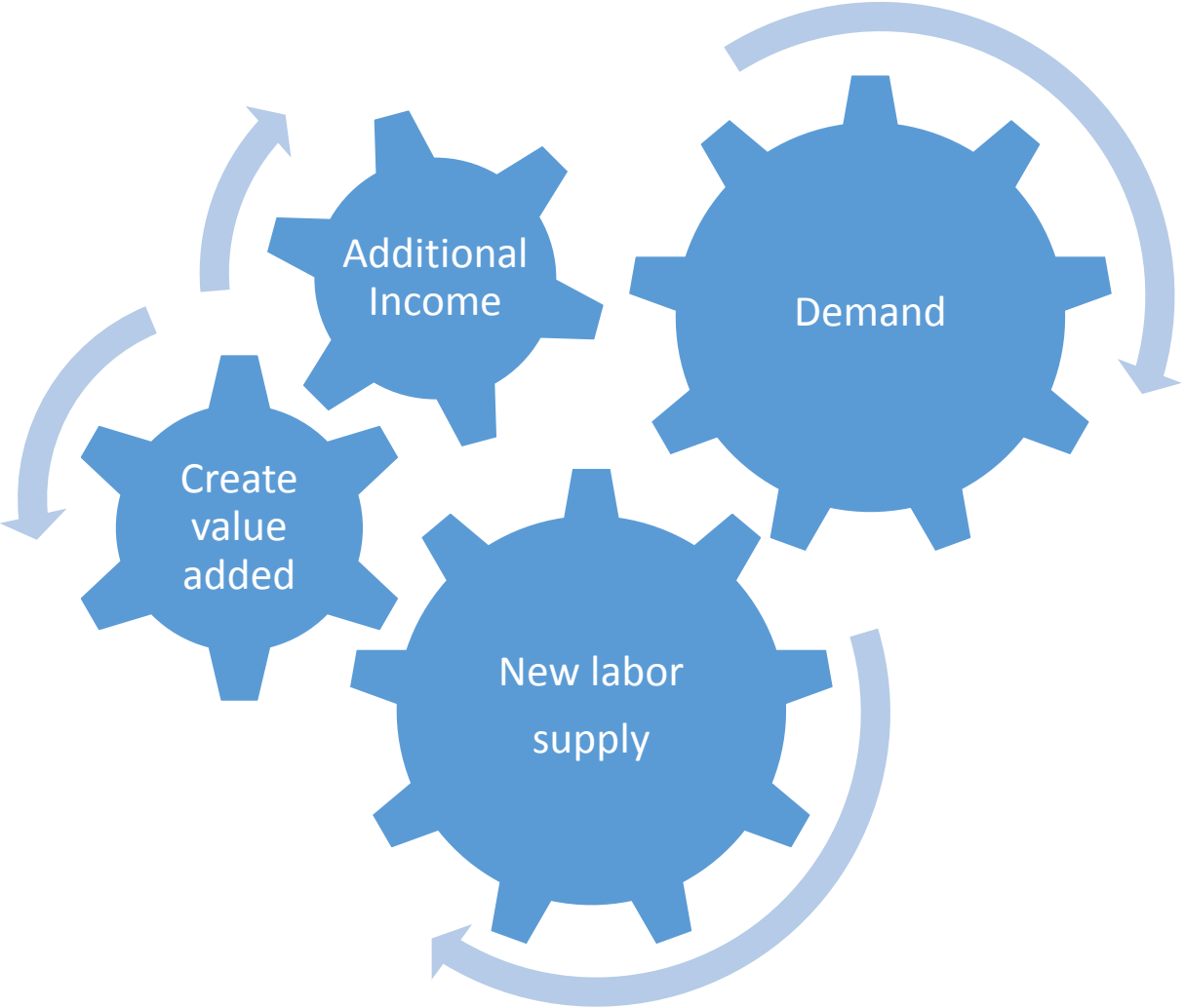
**Conversion of  
imagination and  
ideas into value  
added**



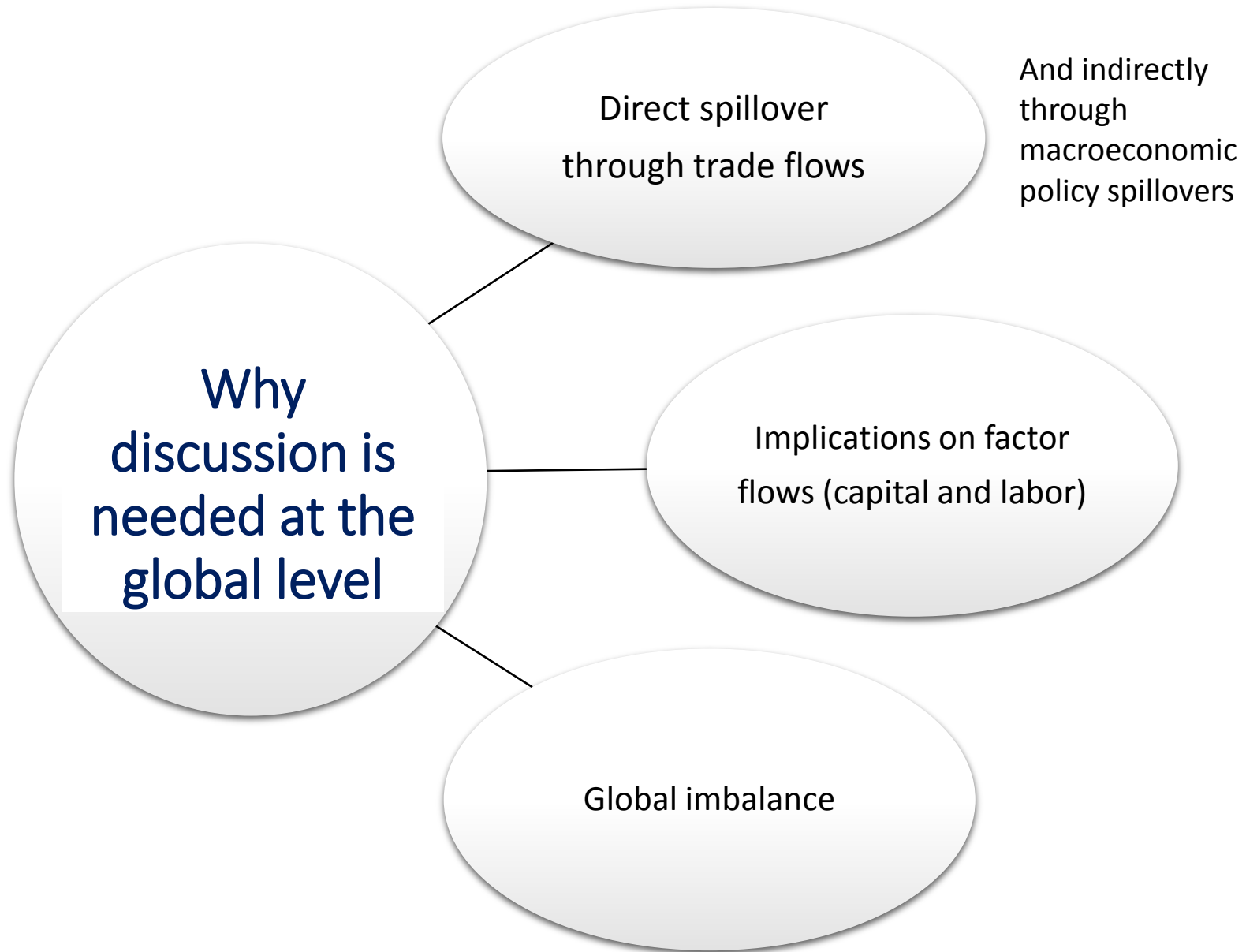
## **Value added**

- Provide through creation of new products
- Apply ideas to existing productive facilities and mode of production

The World will face continued influx of large number of labor: “Opportunity” to lift more people out of poverty or “Risk” if fail to make this work



**Say’s law?**  
**Keynesian?**



# What about global financial stability?



Divergence monetary policy:

could risk widening uncertainty in the global financial market;

US normalization:

If not well timed, could trigger such uncertainty

➔ need for coordinated policy efforts by all relevant parties



For EMs, in particular:

Need IMF reform to ensure the world has a properly working and fair first line of defense

along with strengthened regional arrangements

And macro prudential measures

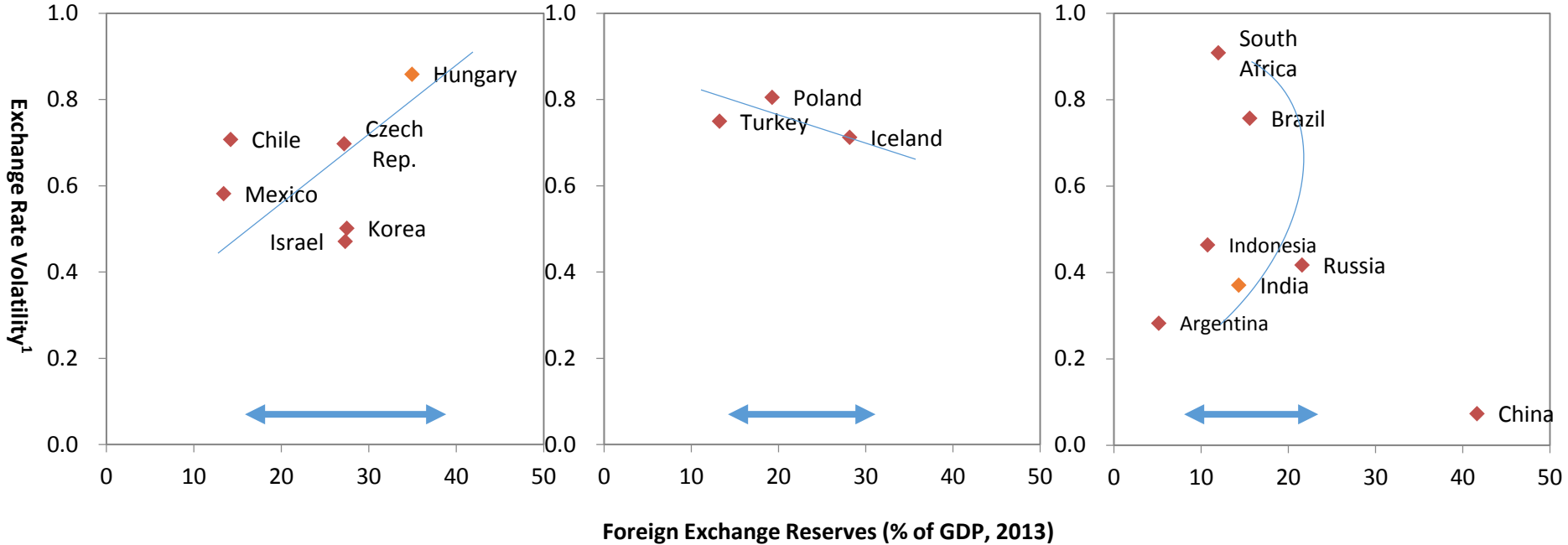


# Korea is one of the few OECD members with high financial openness and non-reserve currency, restricting flexibility

## Classification of Countries with Non-reserve Currency by Financial Openness

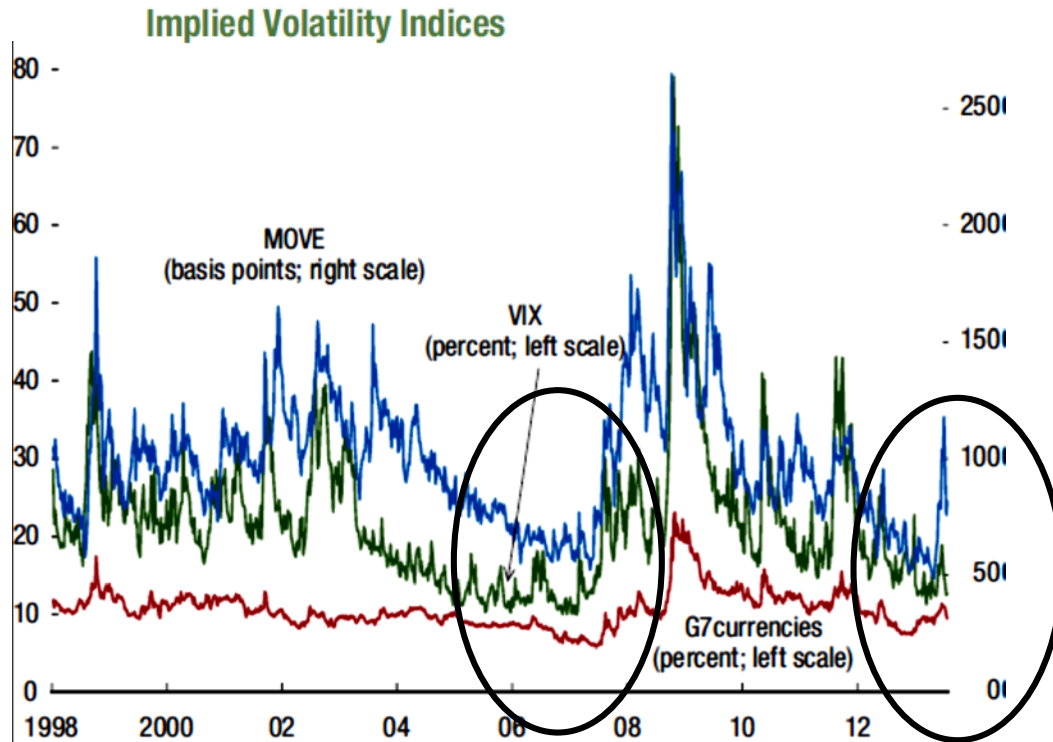
(using Chin-Ito openness index, 2011)

Countries with Relatively High Financial Openness Index (average Chin-Ito index=1.8)	Countries with Relatively Low Financial Openness (average Chin-Ito index=-0.5)	
OECD	OECD	Non-OECD
Chile, Czech Rep., Hungary, Israel, <b>Korea</b> , Mexico	Iceland, Poland, <b>Turkey</b>	Argentina, Brazil, China, India, Indonesia, Russia, South Africa

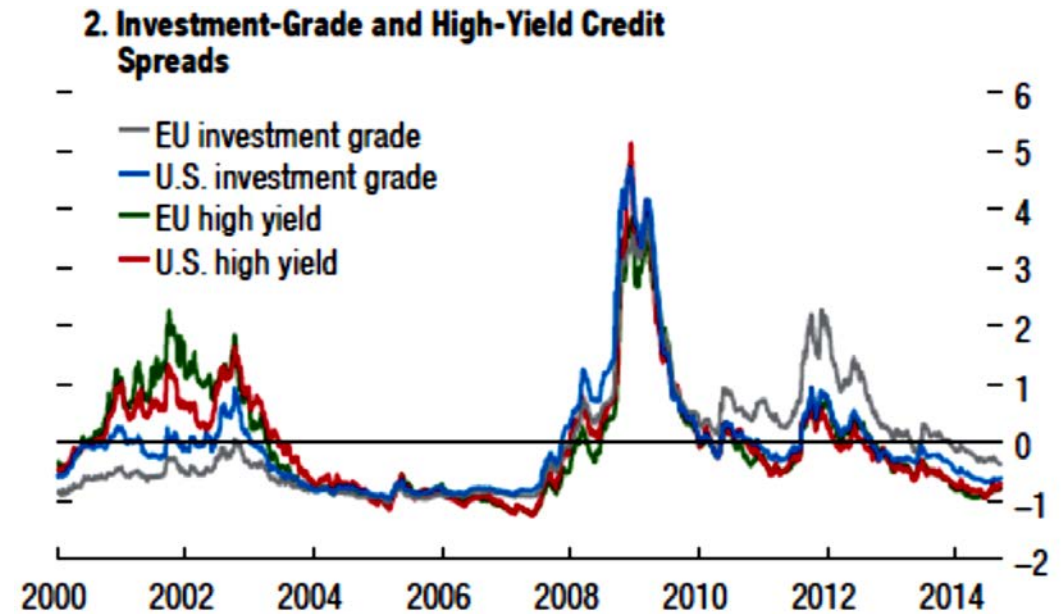


Note: 1. average of monthly standard deviation, 2003-14.  
Source: IMF, IFS; Bloomberg DB.

# Global financial risks (lack of market discipline): Risks were mispriced and likely to be the case now



Source: Bloomberg, L.P.  
 Note: G7 currencies = VXY index from JPMorgan Chase & Co. and denotes G7 foreign exchange volatility. MOVE = Bank of America Merrill Lynch Option Volatility Estimate index and denotes one-month Treasury options volatility. VIX = Chicago Board Options Exchange volatility index on the Standard & Poor's 500 and denotes equity volatility.

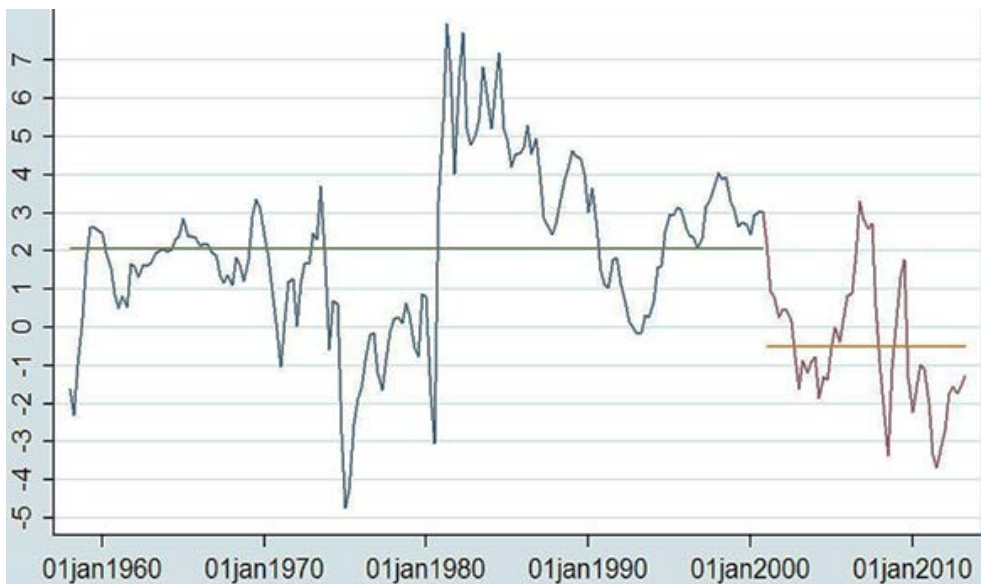


Source: IMF staff calculations.  
 Note: Z-scores relative to the historical distribution of the respective option-adjusted spreads. EU = European Union.

Source: IMF GFSR October 2014

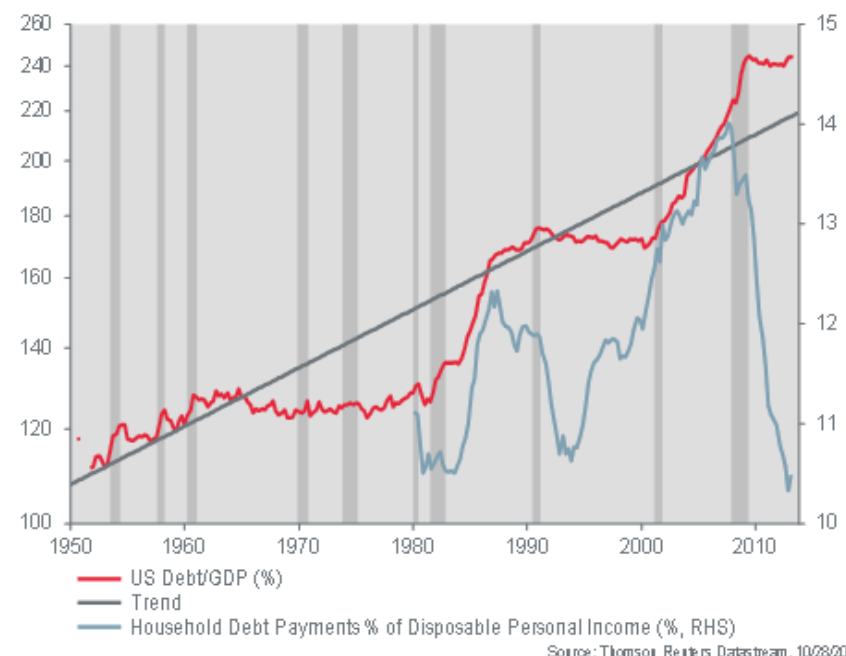
Global financial risks (lack of market discipline):  
Low real interest rate allowed debt to rise beyond capacity to repay (e.g.,  
cost of borrowing—why is basic market mechanism not working?)

US: Money Market Rate Net of CPI Change (%)



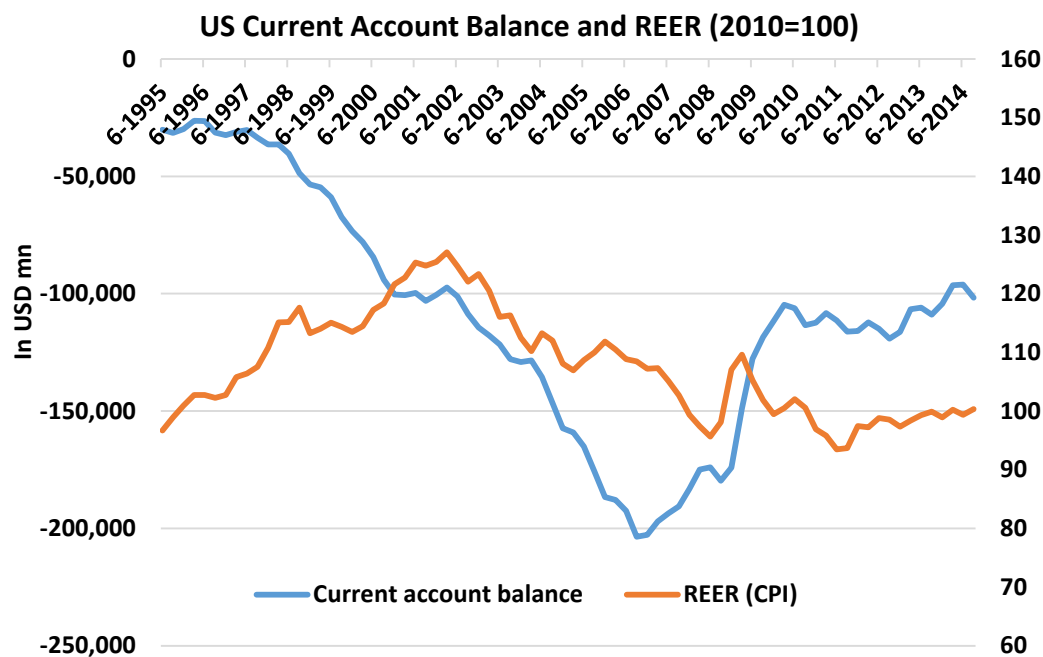
Source: IMF database (IMF e-Library)

US Total Debt % GDP vs. Household Debt Payment  
Total Debt = Govt. + Non Financial Business + Household Debt

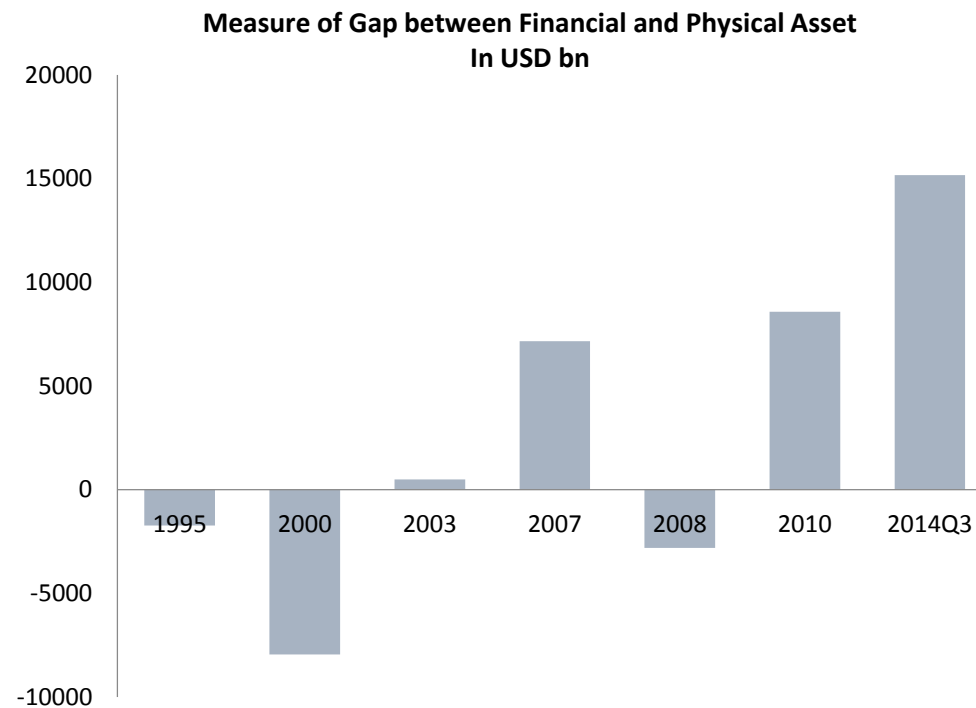


From Nicolas Ferres Presentation; Eastspring Investments (Singapore) Limited, October 2013

# Global financial risks (lack of market discipline): Despite widening current account, lack of global institutions, the normally expected self-correcting market discipline did not kick in (or kicked in abruptly)



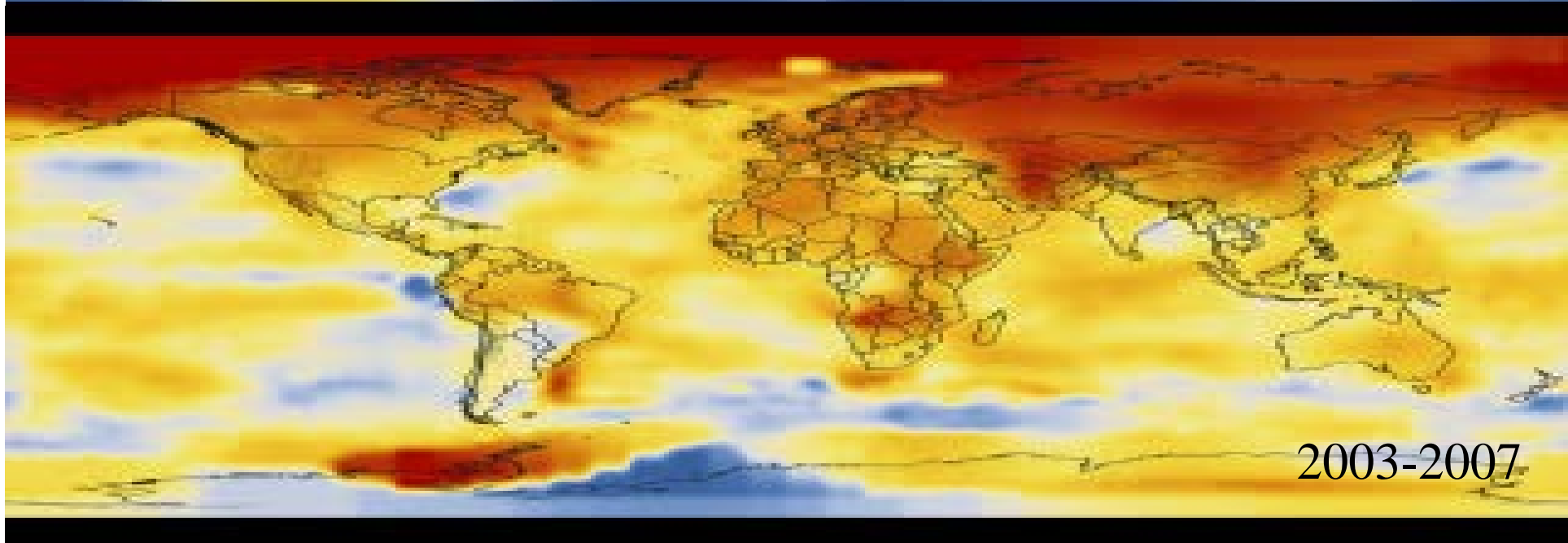
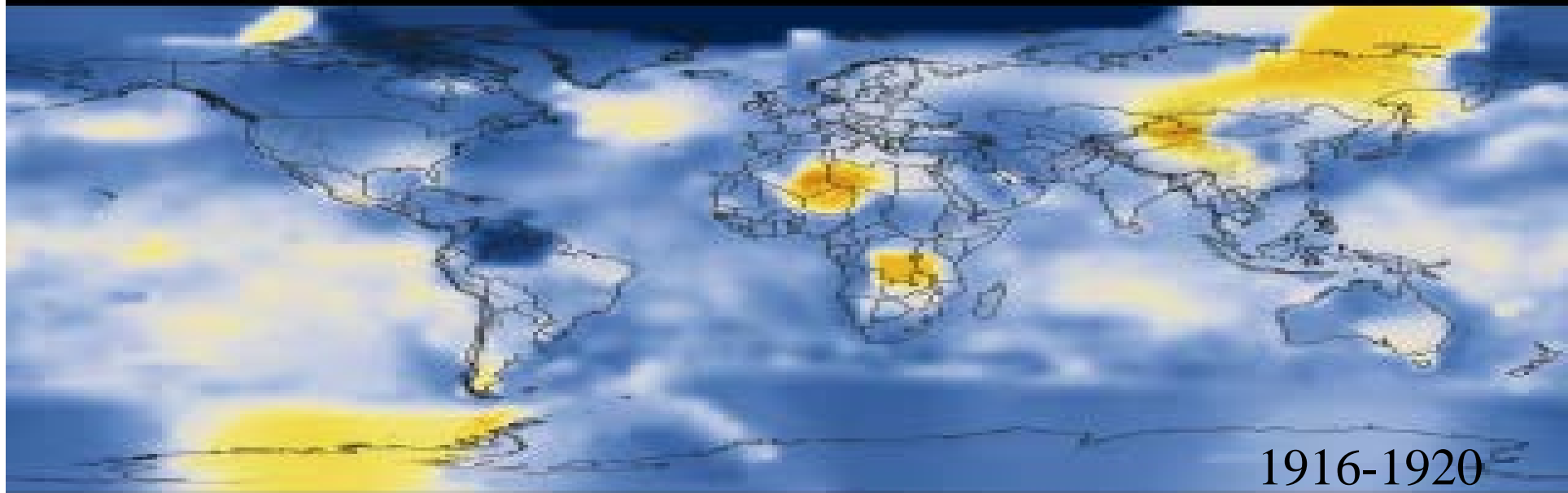
Source: CEIC



Source: US Flow of Funds; author's estimate

To end with a positive note:

We may not have to worry about economic recovery because maintenance of the status quo will ensure that we will all be ....



Copied from a PPT created as part of a project: National Science Foundation ITEST Grant #0833706.



**Thank you!**