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**Economic and Social Commission for Asia and the Pacific**

High-level Consultation on the G20 Seoul Summit: Perspectives from Asia and the Pacific

Bangkok, 26 October 2010

**Chairperson's Summary of the High-level Consultation  
on Perspectives from Asia and the Pacific on the G20  
Seoul Summit****I. Introduction**

1. Representatives from 26 Asia-Pacific countries met at the headquarters of the Economic and Social Commission for Asia and the Pacific (ESCAP) on 25 and 26 October 2010 to discuss Asia-Pacific perspectives, especially from non-G20 members, on the agenda of the G20 Summit to be held in Seoul on 11 and 12 November. This is the first G20 Summit to take place in a non-G8 country and the first one to take place in Asia and the Pacific, in recognition of the emergence of the region as the growth pole of the world economy.

2. Under the premise that all countries—large, small, rich or poor—have a role to play in sustaining global growth, whose benefits, in turn, should be shared widely, the Summit will aim to address the needs of the emerging and developing world under the theme of “Shared growth beyond crisis”. However, the sustainability of the current economic recovery is being challenged on a number of fronts, including the slowdown in growth in the advanced economies, the risk of a double-dip recession caused by a premature withdrawal of stimulus packages, possible declines in the flow of development finance, destabilizing short-term capital inflows to emerging market economies, and rising protectionist tendencies in the advanced economies.

3. Recognizing that the United Nations is the only global body with universal participation, the delegates welcomed the initiative of the Government of the Republic of Korea to proactively extend the G20's outreach activities by inviting ESCAP and other regional commissions of the United Nations to convey the perspectives of non-G20 countries on the Summit's agenda.

4. Because all countries, large and small, are affected by the decisions taken by the G20, it is important that the Group be concerned about inclusion and transparency. Regular consultation through the United Nations and its regional commissions can allow all States, especially smaller States, which comprise the majority of the United Nations membership, to have opportunities to raise issues of concern to them. In this context, the pioneering initiative of the Republic of Korea to reach out to

the non-G20 countries through ESCAP, the regional arm of the United Nations in Asia and the Pacific, is commendable, and the possibility of continuing such a process of consultation in the future may be explored. To facilitate consultations with non-G20 countries, it is important that the United Nations and its regional commissions be represented not only at the Summit level of the G20 process but also at preparatory and operational levels.

## **II. Recovery, growth and development**

### **A. Short-term risks to recovery and growth**

5. The recovery from the crisis has been fragile and uneven with continuing uncertainties about the prospects of the advanced economies. While fiscal consolidation in some advanced economies is clearly important, there is a risk that a premature withdrawal of fiscal stimulus packages may lead to a double dip recession, which will be self-defeating, achieving neither consolidation nor growth. Furthermore, such a move would affect the recovery process of a number of Asia-Pacific developing countries adversely because of their high export orientation. For the G20 to be a truly global body, it should consider the likely impact of its decisions on non-members, including small developing countries that are vulnerable to external shocks.

6. Favourable growth prospects and comparatively high interest rates in developing economies have attracted large short-term capital flows to the region. The capital inflows originated in large part from the cheap liquidity available as a result of near-zero interest rates and quantitative easing in developed economies, which has supported a burgeoning carry trade for investment in high-yielding assets of developing economies. These capital inflows are putting upward pressure on exchange rates, boosting inflationary pressures and creating the potential for asset market bubbles in some countries.

7. In order to protect macroeconomic stability from the destabilizing effects of surging capital inflows, many central banks have intervened in foreign exchange markets to moderate the speed of currency appreciation, but building up reserves is costly. Managing capital inflows is a complementary option recently implemented by a number of developing economies. Given the disruptive impacts of volatile capital flows on macroeconomic management in developing countries, it is important that the G20 supports these countries in mitigating these adverse impacts through, among other things, capital controls. However, it should be noted that not all Asia-Pacific countries are suffering from capital surges: low-income countries are struggling with the opposite problem of inadequate capital flows and depreciating exchange rates.

8. The massive liquidity expansion resulting from easy monetary policies in the advanced countries in the aftermath of the crisis has led to a rebound in commodity prices. As a result, food inflation in some countries in the region, especially the populous low-income countries in South Asia, is already in double digits, a worrisome development because of its adverse impact on the livelihood security of the poor. Because speculation in commodity markets could lead to price volatility, it is important that previously unregulated over-the-counter (OTC) derivative trades be carried out in public exchanges and that speculative position limits (total number

and value of contracts for a given commodity) be established and applied equally to all investors.

9. Another risk to the recovery prospects is protectionism. In that context, the delegates took note of the G20's standstill commitment, but they also expressed concern over the rise of less visible protectionist measures, including anti-dumping actions, subsidies of different types and preferential treatment of domestic firms. Unwinding such measures would add confidence to the global trade regime in this time of uncertainty. In addition, a successful conclusion of the Doha Round, in the letter and spirit of the Doha Development Agenda,<sup>1</sup> and delivery on the duty-free-quota-free market access and Aid for Trade commitments of the Hong Kong Ministerial Declaration adopted by the World Trade Organization in 2005<sup>2</sup> are critical in order to support the effectiveness and fairness of the international trading system.

## **B. Development and medium-term rebalancing**

10. A medium-term challenge to growth, which is particularly important for Asia-Pacific countries, is the expected slowdown in the growth of import demand in the United States of America and Europe, as these economies unwind fiscal and current account imbalances. In this context, with 950 million people living in poverty and with wide developmental gaps, including in the achievement of the Millennium Development Goals and in infrastructure, the Asia-Pacific region has considerable potential to generate additional aggregate demand to support growth in the region and in the global economy. Therefore, the challenge posed by the prospects of a more sluggish growth in aggregate demand can be turned into an opportunity for promoting inclusive development. Poverty reduction should be seen not as a social welfare scheme but as a critical component of a strategy to promote growth. The G20 Summit should send a clear and strong message that achieving the Millennium Development Goals and narrowing development gaps should occupy a central place in the Framework for Strong, Sustainable and Balanced Growth.

11. For that purpose, it is necessary to foster policies to make growth more equitably distributed and to enhance consumption by the poor. Such policies could include promoting agriculture and rural development, strengthening social protection, enhancing financial inclusion, and promoting job creation, with a focus on disadvantaged groups and women. As the majority of the poor live in rural areas and derive most of their income from agriculture, they are likely to benefit from agricultural growth. Over the past two decades, public investment and international support for agriculture has declined. Consequently, the growth of agricultural output and productivity has decelerated. Thus, it is important that Asia-Pacific governments and the international community redirect their attention to agriculture and other non-farm activities in the rural economy to enhance food security, create employment, and reduce poverty.

12. Apart from their role in reducing poverty, well-functioning social protection systems can act as automatic stabilizers during periods of crisis and help support domestic demand at other times by reducing the need for

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<sup>1</sup> See A/C.2/56/7, annex.

<sup>2</sup> World Trade Organization, document WT/MIN(05)/DEC. Available from <http://docsonline.wto.org>.

household precautionary saving. However, the coverage of social protection programmes in the Asia-Pacific region is among the lowest in the world. Nevertheless, a number of ambitious social protection programmes have been implemented in the region in recent times: Thailand has a universal health-care programme; India has the Mahatma Gandhi National Rural Employment Guarantee Act (NREGA); Pakistan has the Benazir Income Support Programme (BISP); Bangladesh, Indonesia and the Philippines have implemented various cash transfer programmes for poor households. Such initiatives need to be redoubled and deepened.

13. There is a need to ensure that financial services reach out to the millions of “unbanked”, providing them with the opportunities and security of a well-functioning financial system. Reducing access barriers to financial services requires undertaking innovation and investing in human resources and technology in order to cut transaction costs. Different types of financial institutions have a role to play in order to serve the poor, by covering the “five micros”: micro-savings, micro-credit, micro-repayments, micro-remittances and micro-insurance. Because traditional financial institutions are unlikely to champion financial inclusion, public policies and regulations have a critical role to play. In this context, the delegates took note of the creation of the Financial Inclusion Experts Group (FIEG) by the G20.

14. Employment growth is not only a challenge for advanced economies suffering from a jobless recovery but also for Asia-Pacific countries in which the labour force is increasing rapidly. In addition, as the lack of a critical mass of skilled workers is often a barrier to domestic businesses as well as foreign investors, more efforts are needed to improve the availability and quality of higher education and vocational training, especially in low-income countries.

15. Exploiting the potential for regional economic cooperation and integration in Asia and the Pacific by, among other things, strengthening physical and institutional connectivity, can also contribute to the region’s aggregate demand and the process of global rebalancing. In addition, South-South cooperation and triangular development cooperation are becoming important channels of resource flows and capacity-building for poorer countries and should be encouraged. Emerging countries, such as China and India, have set examples by initiating their own duty-free-quota-free schemes for products from least developed countries.

### **III. Development finance**

16. Despite the adverse impacts of the food and fuel price crisis of 2008 and the subsequent global financial crisis, the achievement of the Millennium Development Goals is still feasible in the Asia-Pacific region. ESCAP estimates that, for that purpose, the region would require additional resources of about \$100 billion per year between 2010 and 2015. However, while this figure represents less than 1 per cent of the gross domestic product for the region as a whole, the additional resources represent as much as 20 per cent or more of the gross domestic product of some of its low-income countries. It is important that the G20 maintain its strong support for the achievement of the Millennium Development Goals as a part of the global partnership for development.

17. The importance of fulfilling all official development assistance commitments, including the commitments by many developed countries to achieve the target of 0.7 per cent of GNP for official development

assistance to developing countries by 2015 cannot be overstressed. On a related note, delegates welcomed the growing importance of South-South cooperation, which will contribute to closing development gaps and sustaining global economic growth.

18. In this connection, the G20 summit needs to be made aware of the concerns and position of the least developed countries reflected in the Dhaka Outcome Document,<sup>3</sup> which was adopted at the sixty-sixth session of ESCAP as the input from the Asia-Pacific region to the fourth United Nations Conference on the Least Developed Countries.

19. Investment in basic infrastructure, such as electricity, roads and safe water, could return a double dividend by spurring growth as well as helping to achieve the Millennium Development Goals. Some 930 million people in Asia-Pacific still lack access to electricity. Over the next decade, it is estimated that narrowing such infrastructure gaps in Asia and the Pacific would require \$8 trillion, or \$800 billion per year.

20. To finance these projects, it will be vital to complement government efforts with a massive recapitalization of the multilateral development banks to enhance the supply of long-term development finance. In addition, novel forms of financing need to be explored. In this respect, the 2010 Jakarta Declaration on Public-Private Partnerships for Infrastructure Development in Asia and the Pacific<sup>4</sup> emphasized the importance of public-private partnership projects for the financing of infrastructure projects in the Asia-Pacific region. The Declaration also requested the United Nations and international financial institutions to elaborate the elements of a regional financial architecture in order to enhance the availability of capital for infrastructure development projects in the region.

21. In that connection, the delegates called on the G20 to consider financing for infrastructure investments an important part of its growth and development agenda, and to explore ways to implement, on a global scale, innovative forms of financing, including public-private partnerships and risk-mitigating guarantees to leverage private capital. They also highlighted that a stronger regional financial architecture could help direct regional savings to regional infrastructure needs, contributing to growth and development.

22. Another innovative source of revenue to fund development gaps could be provided by a small international financial transactions tax, which could also contribute to moderating the volatility of capital flows to developing countries. Because such a tax could generate revenue to fund global public goods, including the achievement of the Millennium Development Goals and poverty reduction programmes, the G20 should give it serious consideration, while taking into account specific national conditions.

#### **IV. Financial regulatory reforms**

23. The delegates took note of the work being done to strengthen the regulations of the global financial system, including high-quality capital, new leverage and liquidity standards, and systemically important financial

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<sup>3</sup> E/ESCAP/66/6.

<sup>4</sup> See ESCAP resolution 66/x of 19 May 2010.

institutions and resolution regimes. It is important to keep this positive momentum and continue making progress in areas such as reducing procyclicality, reforming compensation practices, and reducing reliance on credit rating agencies.

24. While these reforms will contribute to the overall stability of the global financial markets, it is important to assess whether they may unintendedly reduce the access of low-income developing countries to international finance. Because their domestic financial markets are at an early stage of development, access to external finance is particularly important for these countries. In this respect, the G20 leaders could call for the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS) and other relevant bodies to conduct a low-income country impact analysis of all new financial regulations.

25. While adopting international standards on prudential financial regulation is important to all countries regardless of their level of development, it should be recognized that low-income countries lack the institutional and technical capabilities to implement them. Thus, it is important to support these countries with technical assistance in order to help them not only develop modern financial systems but also implement modern financial regulatory and supervisory functions.

## **V. Reform of the international financial architecture**

26. Rigid conditionality requirements attached to the traditional International Monetary Fund (IMF) lending programmes have often had adverse consequences on growth in the recipient countries, and the reform of conditionalities is a pending issue. In that context, the delegates took note of more suitable facilities promoted by the G20, including the Flexible Credit Line (FCL) and the Precautionary Credit Line (PCL), and welcomed the global financial safety net (GFSN) initiative proposed by the Republic of Korea. That initiative is expected not only to provide developing countries with emergency financial assistance but also to minimize the destabilizing effects of sudden capital swings and to reduce the need to accumulate precautionary foreign reserves. Ideally, GFSN should be built as a network of IMF and regional financial institutions to disburse liquidity support with a view to preventing financial crises. Further deliberations could be conducted on how to best enhance complementarities between GFSN and existing initiatives at the regional level.

27. There is also an ongoing debate on the need for a new global reserve system in view of the limitations of the existing international monetary system based on the use of the United States dollar as the major global currency. Recent discussions have focused on the development of a transnational reserve currency system based on a basket of the world's major currencies. This currency would be similar to the current special drawing rights (SDR) scheme of IMF, but with the basket of currencies being expanded from the dollar, pound, euro, and yen to other currencies. Under this scenario, IMF or an alternative global institution created to that effect, could issue and absorb SDRs regularly in a countercyclical manner in order to regulate global liquidity and enhance global economic stability.

28. Reforming the governance of the Bretton Woods institutions to enhance the voice and representation of developing countries is critical for the legitimacy and effectiveness of these institutions. Despite the long-standing call for redressing the democratic deficit in the governance of the

Bretton Woods institutions, little progress has been achieved. In that context, the delegates took note that the G20 had made reform of the Bretton Woods institutions a central element of its agenda. The adoption of a reform package by the World Bank to shift some 3 per cent voting power to developing countries and transition countries and the recent agreement to shift over 6 per cent of voting power to dynamic emerging markets and developing countries in IMF are encouraging first steps. It is important that the G20 continue pushing for further and more ambitious steps to shift voting and other decision-making power to developing countries. In addition, the G20 should support developing countries' call for an open, transparent and merit-based process for selecting the President of the World Bank and the Managing Director of IMF without regard to nationality.

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### **Participating countries:**

Australia	Myanmar
Bangladesh	Nepal
Bhutan	Pakistan
Cambodia	Philippines
China	Republic of Korea
Fiji	Russian Federation
India	Samoa
Indonesia	Singapore
Iran (Islamic Republic of)	Sri Lanka
Japan	Thailand
Lao People's Democratic Republic	Uzbekistan
Maldives	Vanuatu
Mongolia	Viet Nam