Korea's Strategy for Regional and Global Financial Governance: From Rule Taker to Rule Setter?

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I. Introduction

Foreign policy consists of two elements, policy goals and strategies. Policy goals entail a state's defining of what to defend and achieve in its relations with other countries. Strategies are tools to help materialize foreign policy goals. Defining national interests (or setting policy goals) works on three levels. First, it can be a product of broader, macro-historical, political, economic, and security environments, in which a state finds itself. Second, national interests get also formed by strategic contexts, which emerge from a state's construction of its foreign relations. Last but not least, domestic politics can also be critical to foreign policy decisions on certain occasions. In terms of policy tools (strategies), these include physical coercion, negotiation, cooperation, and persuasion. These mechanisms proceed in the form of unilateralism, bilateralism, and multilateralism. For countries that are not considered to be great powers, the scope of their policy selections as well as policy tools can be rather limited, as they tend to be a rule-taker rather than a rule-setter.

In international politics, financial and monetary relations are the nucleus and backbone of the international economic order(s). As such, they are an arena of competition and cooperation that involves power, interests, and ideas among great powers. From the late 19th century to early 20th century, both capital liberalization and the gold standard were inseparable from the hegemony of Great Britain. Similarly, the establishment and demise of the Bretton Woods System and the surge of neoliberalism as the organizing principle for financial and monetary order all materialized within the framework of competition and cooperation among great powers, such as the United States and the G-7 (Cohen 1966;

Kindleberger 1971; Krasner 1982; Ruggie 1983; Keohane 1984; Cox 1996; Strange 1998; Ikenberry 2001). These examples suggest that the dialectics of change and continuity constitutes the history of international financial and monetary order over the last 150 years. Change and continuity have occurred through interactions between market and state across global, regional, and national boundaries. These interactions institutionalize the practices of states' behavior, acting on and against an existing order.

A core function of institutionalization is the process of rule-making and rule-transformation. The politics of global standards is a case-in-point. At the same time, a rule accompanies a ruler and the ruled (Onuf 1989). The trinity of the Bretton Woods system—the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO)— demonstrates the relationship between the ruler and the ruled through rules. Rule-setters set the terms on which future interactions among members take place. They are the authors of the rules of the game. By contrast, rule-takers' main policy goal is to adapt themselves to the changing international financial and monetary order(s). Put differently, weak powers' policy preference reflects constrained choices with little or a relatively narrow range of policy autonomy.

The start of the 21st century shows that the world has changed and so has Korea. The world economic order is at a crucial crossroad of transformation. Korea, previously a rule-taker as a catching-up state at best, is taking an important step toward being potentially a rule-setter. The fact that Korea today is a member of the G-20, the consultative body for the world economic order created in 2009, is one example of such transition. In the history of the world economy, the next ten years can be noted as a period of epochal change, ushering in the great transformation of the world economic order.

The 2008 global crisis leads to calls for changes to be made in the international financial and monetary order at both a global and regional level. First, the hegemony of the dollar is eroding (Helleiner 2009; Eichengreen 2010). The Euro, which was created on the basis of the neoliberal economic paradigm, is also facing massive challenges (McNamara 1998; Gillingham 2005). China has attempted to reduce its dollar dependency by promoting the internationalization of its currency, the Yuan (Lee 2011). Furthermore, Latin America, Africa, and the Middle East have either already embarked on or are in the process of entering into regional monetary alliance. East Asia is no exception. The Association of South East Asian Nations (ASEAN) and Korea, China, and Japan (the ASEAN Plus Three: the APT) often in collaboration with the Asian Development Bank (ADB) have been seriously working on the possibility of creating a regional currency. Although the nature of the discussion on this project is long-term, it signifies the level of dissatisfaction the APT holds with the current dollar hegemony. As Eichengreen (2010) predicts, perhaps the demise of the dollar system is coming. The world economy is shifting toward a system of multi- or "leaderless (Cohen 2010)" currencies.

If monetary order is about a problem of exchange rates that ensures the stable operation of currency supply and demand, necessary for the vitality of trade and investment, financial order, on the other hand, is concerned with institutionalizing rules for the formation and development of financial markets around the world. The making of financial order is often associated with the degree of capital liberalization required for promoting trade and investment. But the downside of financial market liberalization is frequent financial crises in the world economy. As such, another pillar of financial order is to institutionalize financial safety nets to prevent and manage financial crisis. Neoliberal financial liberalization that has been brought about by globalization in the 1980s was dealt a big blow from the 2008 global financial crisis. Its repercussion still remain today, its effects are still being felt in Europe and elsewhere. Active discussions on establishing a regional financial crisis prevention mechanism like the European Stability Mechanism (ESM) are going on in Latin America, Africa, and the Middle East. These regions are actively seeking to reduce their vulnerability to and dependency on the movements of the western financial markets.

East Asia is also following the same trend. [1] The APT has been actively pursuing the establishment of a regional financial safety net and regional financial market development since the Asian financial crisis of 1997-1998. As detailed below, the Chiang Mai Initiative (subsequently the Chiang Mai Initiative Multilaterlaization: CMIM) represents East Asia's effort to institutionalize cooperation for a regional financial safety net. The APT has given serious consideration to the idea of further developing the CMIM toward an Asian Monetary Fund (AMF), Asia's version of the IMF. In this context, in May 2011, The APT launched the ASEAN plus Three Macroeconomic Research Office (AMRO) in Singapore. This is a sister institution of the CMIM, whose institutional purpose is to monitor and offer advice on member states' macroeconomic policy and performances as a regional surveillance unit. In May 2013, the APT unanimously agreed to give the AMRO international institution status. The AMRO became the first financial institution in the region with international institution status. In regards to regional financial market development, the APT introduced the Asian Bond Market Initiative (ABMI) in 2002. In order to facilitate regional bond market development, the APT has made three institutionalized cooperation schemes. The first was the creation of a Credit Guarantee Investment Facility (CGIF) in May 2011. The second is the establishment of a Regional Settlement Intermediary (RSI), which is currently under way; the third being the launch of the Asian Bond Market Forum (ABMF) in 2010. The ABMF aims to standardize local (or national) rules and norms of bonds' transaction across the region.

With that said, there are three layers to the changing international financial and monetary order(s) that lay out a structural context for Korea's financial and monetary diplomacy. The first layer relates to the depth, degree, and direction of the change in the existing neoliberal institutional framework, such as the IMF reform. The second is the extent of emergence and solidification of the increasing number of regional financial and monetary systems (Katzenstein 2005; Powers and Goertz 2011). The third layer connects to the relational characteristics of financial and monetary order developing at a global and regional level. Will they develop in a mutual complementary way? If not, will they develop exclusively and be institutionalized in a competitive form not only globally and regionally but also inter-regionally?

How can Korea, which is not a great power in any meaningful sense, effectively carry out the role of a rule-setter, encompassing the world and East Asia in this major transformational period? More concretely, how can Korea secure such policy goals as exchange rates stability, financial market developments, and financial stability without at the same time losing its policy autonomy? Would there be any way for Korea to project its policy preferences onto the emerging global and East Asian regional finance and monetary order? In light of both the 1997 and 2008 financial crises that shook the Korean economy and threatened to turn it completely upside down, the importance of financial diplomacy cannot be over stated to Korean policy makers.

This paper argues that multilateralism, particularly multilateralism linking regional and global dynamics, should be the cornerstone of Korean financial and monetary diplomacy. Being a middle power that is far more limited in projecting its policy preference on the international arena than a great power is, Korea should not only employ multilateralism as a policy tool. Korea should also pursue it as a goal in itself, if Korea is to be a rule-setter in the changing international and regional economic order(s). To be specific, Korea's multilateralism should be a mixed strategy of regional and global linkage. By this it means that the best way to maximize Korea's policy influence is to take a two-step approach (not mutually exclusive), attempting to exercise global clout that derives from solidifying regional multilateralism. This is a bottom-up strategy that flows from regional to global processes. In developing and designing regional financial and monetary arrangements in East Asia, Korea should build trust and mutual experience in policy cooperation and coordination with China and Japan. Korea should actively take the role of an honest broker in these regional rule-making processes. In so doing, Korea can consolidate patterns of cooperation among regional powers. These patterns of cooperation would then translate into the regional source of Korea's global influence. In short, Korea can do much more in shaping the global financial and monetary order(s) than what its middle power position may allow it to do by choosing to embrace East Asia. As this paper will further elaborate on, a strategy of regional and global linkage opens up more possibilities for Korea to implement and reflect its policy preferences in comparison to other strategies. Of course, there may be a limit as to how far a middle power can go in initiating a multilateral approach and designing an institutional framework. Nonetheless, it can effectively take advantage of the multilateral framework already established, as the extant literature on multilateralism suggests.

This paper consists of the following. First, it discusses why multilateralism is useful for Korea, a middle power in light of the existing literature. This section provides a theoretical framework for the main argument. Next, it sketches out the developments of East Asian financial and monetary cooperation, which is represented by the CMIM, and global G-20. Along with it, this section examines and evaluates Korea's multilateral diplomacy in these processes. On the basis of the discussion above, this paper concludes by revisiting the importance of multilateral strategies on the regional and global linkage of Korea.

II. Multilateralism and Middle Power Diplomacy

1. Why Multilateralism?

Multilateralism is a method with which a state performs its diplomatic practice together with unilateralism and bilateralism. For a non-great power, unilateralism is not something it can practically pursue or prefer, so long as unilateralism accompanies a considerable level of coercive power. As such, a non-great power ends up with two options, bilateralism or multilateralism. However, for the following reasons, multilateralism, not bilateralism, tends to work better for such actors. This paper examines the advantages of multilateralism first theoretically, and second, practically—in mind of Korea's middle power diplomacy.

Multilateralism itself brings about many benefits to non-great powers like Korea. First and foremost, consensus-based multilateralism as opposed to other forms of political processes enables the voice of non-hegemonic states to be heard in a decision making process. Of course it is not always the case that final policy decisions distributes symmetrical benefits to all participating states. Furthermore, multilateralism may also be window-dressing for hegemonic politics, just as realists argue (Krasner 1985; Mearsheimer 1995; Grieco 1999). Even in asymmetrical power relations multilateralism, rather than bilateralism, can better mitigate the distribution of benefits (Ruggie 1990; Martin 1998). By capitalizing on the norms, rules, and decision-making procedures provided by multilateralism, a non-great power can be better positioned to negotiate, adjust, and formulate their interests (Hurrell 2005, 50). Regarding this, Catherine Lu elaborates as follows (Lu 2009, 54-55):

> While conflicts, especially over the distribution of goods and burdens, will inevitably arise, under conditions of political friendship among peoples [in a multilateral setting], they will be negotiated within a global background context of norms and institutions based on mutual recognition, equity in the distribution of burdens and benefits of global cooperation, and power sharing in the institutions of global governance rather than by domination of any group.

More to the point, multilateralism is advantageous for a non-great power particularly during a major transition period. The major transition period refers to a turbulent period in which various opinions and policy suggestions for change evolve in the political arena where the new and old powers collide. The framework of multilateralism provides its diverse actors a place for debate, helping them share information on policy preferences, and provides a means to achieve policy goals. Expansion of debate and information does not always generate the most agreeable outcome. Through debate following multilateral processes, however, concerned states can discuss and be subsequently better informed of what issues are at stake and what range of possible solutions are on the table and available to them. Every state's position, including those of great powers, is represented in deliberation. As such, a rule-taking non-great power can utilize these multilateral processes to make its informed choice more pliable to a rule-setter's policy preferences, which would not have been otherwise known.

For example, the G-20, created in 1997, today takes on a serious global governance role, and in response to the 2008 global financial crisis, now consists of four clusters. Cluster one includes Banking Capital Requirements, the Basel III Agreement where issues relating to bank's capital rates and various banking regulations are discussed. Topics in detail include "Bonus Regulations," "Accounting Harmonization," "Credit Rating Agencies," "Bank Tax, International Transaction Tax," "Derivatives," and "Hedge Funds." Cluster two relates to macroeconomic coordination. Issues debated on macroeconomic adjustment include "Sovereign Debt management," "Global Imbalances and currency," "Currency Valuations and Movements," "Monetary System," "The Future of the Dollar as Core Currency," "Global Financial Safety Net (Korean Agenda)," "Trading System Coordination," and "Prevention of Protectionism and Doha Round Completion." Cluster three discusses public goods. Topics included here are "Millennium Development Goals," "Climate/Energy," "Food Security," and "Innovation/Education, Corruption." Lastly, Cluster four is about institutionalization and governance frameworks. Cluster four covers the establishment of the G-20 Secretariat and reformation of international financial institutions, such as the IMF. As such, participating states can discuss and examine the issues in each cluster more in depth under the framework of multilateralism. In the process of agreement and disagreement, a shared framework of interaction between states is established. The shared framework helps a non-great power to increase its chances of better predicting the future direction a global governance system is likely to take. This in turn provides grounds for a non-great power's informed policy choice in changing global economic orders.

Last but not least, multilateralism's repeated game format can be advantageous to a non-great power. Repeated games are long-term, and long-term interaction among the member states helps them create an inner epistemic community or political friendship among individual policymakers/experts. More often than not, professional groups' policy network works around the policy idea and long-term vision rather than short-term power and benefits. As such, a non-great power can offset its power deficiency by helping to form policy networks. This allows it to discuss in detail its policy visions and ideas with experts from other states. It can also make attempts to forge new coalitions and cooperation around shared policy visions with like-minded states. Indeed, there are ample opportunities for policy networking especially in the financial and monetary areas that require a high degree of expertise and professionalism, high levels of uncertainty in these areas also creates fertile ground for the efficacy of policy networks.

In sum, multilateralism is more favorable over bilateralism for a non-great power in three distinct ways. First, they can voice their policy preferences and be better positioned in claiming the distribution of benefits through norms, rules and decision-making procedures under multilateralism. Second, as a discussion forum is created within the framework of multilateralism, a non-great power can enhance its policy adaptability by attaining information about each state's policy preferences and strategies. Lastly, a non-great power can forge or make a significant contribution to the making of policy networks that resonate with its policy visions and ideas. This kind of multilateral context can help it offset at least partially the so-called power deficit problem.

2. Korea's Multilateral Middle Power Diplomacy

On the basis of the above theoretical discussion on multilateralism for a non-great power, let's now turn to the advantages Korea can accrue from its multilateral diplomacy that links regional and global forces together and its strategic comparative advantages. The core strategic context of the multilateral linkage is Korea's differentiated position with regard to international and regional politics, respectively. At the global level, Korea is one of many "rising" states or "emerging" powers in international politics. Yet it is a main actor in its own right in the context of international relations of East Asia. Korea is capable of leading the process of formulating regional financial and monetary policies. Korea also has the capacity to act as a policy bridge between China and Japan, two great powers in the region, which hints at the possibility of Korea's global influence through regional policy coordination. As discussed in detail below, Korea's role and diplomatic power in regional politics has a proven record in institutionalizing East Asian financial cooperation.

The findings of the existing literature on the emergence, development, and transformation of international economic order also support the strategic appropriateness of the multilateral link for Korea. Since European global expansion in the early 19th century, international economic order tended to take the form of an expanded regional order (Watson 1992; Gamble and Payne 1996). This attests to the critical importance of a regional order for global rule-setting. The Cold War can be viewed as a collision of regional economic orders centering on the Soviet Union and the United States. The post-Cold war development of various regional order making efforts can be also understood as regional competition to ensure the bridgehead in the changing international economic order (Acharya and Johnston 2007). The latest argument that Europe spearheaded neoliberal financial liberalization over the last 30 years is the case-in-point (Abdelal 2007). This exemplifies the making of international economic order through regions. The major implication here is that Korea is likely to play the role of a rule-setter more effectively in the politics of international economic order when it deploys its global financial diplomacy with a firm regional basis. Korea's individual influence may be very limited globally, but Korea can wield greater power with a solid regional institutional basis, for which Korea's concert with China and Japan is indispensable.

Nonetheless, Korea should also guard against the erosion of its policy autonomy vis-à-vis China and/or Japan. This is an important precondition, to be an honest broker (or a policy link) in regional politics with an aspiration for a larger global role. For this, Korea has to actively seek policy dialogues with and draw support from other East Asian countries, such as ASEAN countries. Going beyond the role of an honest broker, Korea should be at the center of the axis, shaping the regional visions and interests. Korea can accomplish this in multilateral settings through a mixture of flexibility (policy adaptability) and creativity (public debate). As noted earlier, Korea can have the opportunity to assume the role of a rule-setter at the G-20 as it rises to the hub of regional cooperation in East Asia. The fact that institutionalization of East Asian financial and monetary cooperation would yield practical benefits to Korea, such as an enhanced financial safety net and the development of financial markets, is needless to say.

With this in mind, the next section explores the institutionalization of East Asian financial and monetary cooperation since the Asian financial crisis (hereafter "AFC") of 1997-1998. Given the limited space, the discussion shall focus on the development of the CMIM, arguably the most successful example of institutional cooperation in East Asia. The discussion illuminates Korea's role and position in regional institution building processes with an eye toward the regional-global multilateral linkage. This section is followed by a review on the historical development of the G-20. Central to this discussion is Korea's role as well as limitations as a potential rule-setter at the global level. Taken together, these discussions make the case for the importance of linking regional and global approaches for Korea's multilateral diplomacy.

III. Korea in East Asian Financial Cooperation

One of the most conspicuous phenomena in East Asian economic relations in the aftermath of the AFC is arguably the emergence and development of what Grimes (2009) calls "East Asian financial regionalism." Grimes defines East Asian financial regionalism in terms of "[East Asian states'] attempts to reduce currency volatility, to create frameworks to contain financial crises, and to develop local financial markets (p5)." Under the auspices of the APT, which was institutionalized in 1999 by East Asian states as a forum for regional economic cooperation, East Asian financial regionalism has manifested and developed through three major initiatives: the Chiang Mai Initiative (CMI) (2000) as a framework to contain and manage financial crises, the Asian Bond Markets Initiative (ABMI) (2002) for development of local financial markets, and the agreement to conduct in-depth research on the feasibility of the Asian Currency Unit (ACU) (2006) for stability of currency volatility (exchange rate and currency arrangement).

In this context, on May 12, 2009, the finance ministers of the APT entered into a unanimous agreement to multilateralize the CMI in Bali, Indonesia. When the CMI was launched in 2000, it was in the form of bilateral swap arrangements. The Bali decision turned the existing network of bilateral currency swaps into a multilateral currency swap scheme. Subsequently, the Chiang Mai Initiative Multilateralization (CMIM) took effect on March 24, 2010. As discussed in detail below, the emergent CMIM counts as a historic agreement, as it is the first time that sovereign states in East Asia allowed majoritarian decision-making rules to govern any aspect of their interstate relations. It constitutes a sharp departure in a formal sense from the so-called ASEAN WAY, the norm of unanimity prevalent among ASEAN countries and between ASEAN countries and their three East Asian neighbors, China, Japan, and Korea

The idea of multilateralizing the CMI first appeared in the 2005 Annual Meetings of the APT Finance Ministers in Istanbul. It was a response to a practical, functional need. Since its inception, one of the core institutional purposes of the CMI was to make sure the rapid provision of short-term liquidity to crisis-affected states to better curb financial crisis at early stage. As such, at stake would be the CMI's capacity to enable the quick disbursement of necessary funds. The bilateral nature of the CMI's swap arrangements would not help to deliver on this particular institutional promise. In order to activate a network of bilateral swap arrangements, a given state has to negotiate with partner states one-by-one. A series of bilateral procedures take a great deal of time, and this makes it almost impossible for a state to receive timely financial support from the CMI.

In this context, from May 2006, APT countries started to work on the details of multilateralizing the CMI by agreeing to discuss such key issues as the total size of the fund, the form of funding, the legal modality, the proportion of each state's contributions, and decision making procedures/voting shares (Chey, 2009, p. 452). Meanwhile, the 2006 meeting passed an interim measure to speed up the activation of the CMI. That is, the APT stipulated that all concerned parties meet in one place within two days to make collective decision when a member state would apply for CMI funding disbursement.[2] The Kyoto meeting in 2007 substantively reinforced the march toward multilateralization. On May 5, 2007, the APT finance ministers reached basic agreement to launch a multilateral currency swap scheme by way of multilateralizing the CMI. At the Kyoto meeting, the Asian finance ministers did not shy away from saying that the envisioned multilateral institution would be an "Asian version of the IMF," which was first proposed by Japan in 1997 at the Annual Meeting of the IMF and the World Bank in Hong Kong (Lee 2008).

On May 3, 2009, APT countries entered into a historical moment by announcing that the CMIM would start life in 2010. The APT managed to translate the basic agreement of 2007 into a concrete institutional manifestation. The APT worked out the details of the new multilateral currency swap scheme and successfully addressed the five key issues (the total size of the fund, the form of funding, the legal modality, the proportion of each state's contributions, and decision-making procedures/voting shares), that were put on the table in the 2006 APT meeting for multilateralization. The total size of the fund was agreed to be $120 billion dollars. The form of funding would be self-reserved reserve pooling. For its legal modality, a single legally binding contractual agreement was decided upon. When it comes to each participating member's contribution size, China and Japan would each contribute $38.4 billion dollars. Korea would be responsible for $19.4 billion dollars. The rest of the fund would come from ASEAN countries collectively ($23.8 billion dollars). Voting shares were finalized accordingly. China, Japan, and ASEAN countries would each have 28.4%, and Korea, 14.8%.

Multilateralzation of the CMI came along with three additional meaningful institutional changes. The first was the increase in membership. The APT under the CMI included only 5 ASEAN countries (the Philippines, Malaysia, Singapore, Thailand, and Indonesia). The CMIM added to the list five more ASEAN countries, Vietnam, Cambodia, Laos, Brunei, and Myanmar, covering all ASEAN countries in its membership. The added scope of membership helped the CMIM to claim with confidence that it has become a truly comprehensive regional cooperation mechanism in East Asia. The second was to make the CMIM a dollar-based multilateral liquidity support while foregoing the existing local currency-based bilateral swap arrangements under the CMI. The APT made this move with recognition that US dollar would be likely to be the cause of and solution to liquidity problems. Last but not least, the APT stipulates that the decision to lend or not to lend short-term liquidity support, which requires qualified majority vote (two-third of votes), should take place within a week after the application is made by a member state. At which point the emergency fund will be released upon approval. This stipulation is a strong indication of the APT's commitment to offer timely financial support from the CMIM for a crisis-affected member state.

The CMIM was officially launched on March 24, 2010. There were two remaining issues for the CMIM to resolve before it becomes a fully loaded multilateral institution. One such issue is devising lending conditionalities for the release of funds. The other is the finalization of the surveillance mechanism. The two issues are interrelated in a sense that the effective and appropriate construction of lending conditionalities cannot function without an adequate surveillance system. In fact, the AMRO (ASEAN+3 Macroeconomic Research Organization) was officially launched in Singapore for surveillance purposes on May 26, 2011. The detailed discussions on lending conditionalities are currently under way. The issue here is how to devise them with "Asian" characteristics, going beyond or competing with IMF's one-size-fits-all program. Were it not for setting up different lending procedures and conditionalities, that reflected the unique conditions in Asia, there would be no sufficient rationale for the existence of the CMIM. In other words, it would likely just function as a regional office of the IMF. Flexibility (in terms of local economic needs and conditions), accessibility, speed of disbursement, and prevention of moral hazards are key words around the design of CMIM conditionality.

As such, what started out as a simple mechanism for addressing short-term liquidity difficulties in the region has become an institutionalized framework for region-wide dialogue and cooperation. The CMIM now reflects not only self-help and support mechanisms but also capital flow monitoring, policy reviews, coordination, and collective decision-making. In the process of institutionalizing the CMIM, the most interesting outcome is the non-hegemonic characteristic of its decision-making mechanism.

Non-hegemonic institutional arrangement indicates here that there is no single hegemonic actor who could set agendas predominantly and exercise veto power for institutional decisions. At the minimum, the non-hegemonic arrangement refers to the decoupling of the contribution size of a given state to an institution from voting power the state wields. As discussed more in detail below, veto power on such a major institutional decision as the release of the CMIM fund requires one third of voting shares under the CMIM. But no country enjoys this share under the current arrangement (33.3% voting share). Agenda setting power does not privilege any particular member either. The CMIM is managed through each annual APT finance ministers' meeting (Board of Governors). The annual meeting is to be co-hosted by two countries, one from ASEAN countries and the other from China, Japan, and Korea. Agendas are to be set by these two co-hosts as chairs of a particular annual meeting. As such, equal distribution of agenda-setting power is built in CMIM management system. The CMIM's non-hegemonic cooperation diverges from the prevalent practice of a positive correlation between financial contribution size and voting share/power favored by other multilateral institutions. Equality of agenda-setting power adds to this feature.

In these multilateral processes over the last 15 years, Korea has never shied from playing a leading role. The development of the APT itself, for example, owes much to Korean President Kim Dae-jung's call for the East Asian Vision Group in 1998. The East Asian Vision Group II was also chaired by Korea together with Cambodia. Korea's status in regional politics can be gleaned from the way Korea maneuvered in shaping the governing structure of the CMIM in its favor. As detailed above, the key institutional feature of the CMIM is its non-hegemonic cooperation arrangement. Korea is arguably the country that most benefits from such an arrangement. Korea, for example, practically entertains as much influence in shaping major issues as the other three bigger members do, although it makes the least financial contribution to the CMIM and thus formally possesses the least voting shares. Let's examine this from two dimensions, veto power and agenda-setting power.

The first dimension is veto power. Any new membership requires the consensus of all members. In this regard, every member has veto power. Financial assistance and extension require a two-thirds vote by all members. However, China, Japan, and ASEAN each have only 28.4%, which is less than the 33% required for exercising veto power. As such, no one has veto power on this issue. Korea is not at a disadvantage. Taken together, Korea's veto power is not qualitatively different from that of China, Japan or ASEAN.

The second dimension is agenda-setting power. In a collective decision-making body, agenda-setting power is typically given to the chair. Then, the issue is how to select or assign chairmanship. The CMIM's agenda-setting power works on rotation basis. As noted above, the annual meeting of the CMIM is co-hosted by two members: one from China, Japan, or Korea and the other from an ASEAN country. Therefore, like China and Japan, Korea is expected to host the annual meeting every three years along with its ASEAN co-host partner. This means that these three countries would have an equal amount of agenda-setting power regardless of the difference in the size of their financial contribution. Therefore, in terms of both veto power and agenda-setting power, Korea does as well as its three bigger counterparts. This attests to Korea's strong presence in the politics of East Asian financial and monetary cooperation. Korea's strategic position critically helps its regional diplomatic skills and strategies work toward its policy goals.

IV. Korea in G-20

The G-20 was established as a consultative group with the function of stabilizing the international financial market in the wake of the AFC of 1997-1998. In September 1999, it was first set up as a cabinet ministerial level meeting during the G-7 chancellor's conference in the IMF annual conference. Yet, as the financial crisis of the United States deteriorated the global financial market in 2008, it was promoted to a summit-level conference. The U.S initiated the expansion process of the G-20. The first conference was held in November in Washington D.C. At the third conference in Pittsburg, the G-20 was designated as a premiere forum of international economic cooperation. Furthermore, also at the Pittsburg Conference, it was decided that the G-20 meeting would be held annually. Korea hosted the fifth conference in Seoul in May 2012. As a chair country of the G-20, Korea invested considerable diplomatic resources and energy into making it successful by addressing major discussion items on the table. The event set an important milestone for Korea's diplomatic history, as it gave Korea arguably its first opportunity to act as a rule-setter that shapes and manages the rules for international economic order. As discussed below, the fifth conference Korea hosted cast both light and shadow over what Korea can and cannot do on the global economic stage.

The G-20 started in Washington D.C. with one major issue facing the global economy;

the joint confrontation and rejection of protectionism. The G-20 subsequently expanded its agenda and developed it into five categories under the aforementioned four Clusters. The G-2 also added to its discussion list under the heading of "other issues", items that relate to energy, anti-corruption, and business. The five categories consist of the following: 1) "framework for strong, sustainable, and balanced growth" for appeasement of global disparity; 2) "reformation of international financial institutions" including the IMF and other organizations; 3) "reformation of financial regulations" for stabilizing banks and financial institutions; 4) "expansion of global safety net" for prevention of and effective response to financial crisis; and 5) "development agenda" for the continuation of development support for underdeveloped countries.

Indeed, the first G-20 meeting in Washington D.C. constituted the first economic governance conference at a global level that Korea had ever attended (Choi 2010). Given the historical significance of the conference, Korea's active participation may not come as a surprise. During the first conference, Korea proposed a temporary freeze of such protectionist measures as the employment of new trade and investment barriers and the establishment of export quotas for the following12 months and successfully found consent for its implementation. At the second and third conference, Korea expressed a critical need of cooperation on macroeconomic policy coordination, international cooperation for an "Exit Strategy", and enhancement of emerging and developing states' position in major international financial institutions, such as the IMF and the World Bank. At the fourth conference, Korea, as the upcoming chair of the following G-20 summit, suggested and formulated new agendas—development problems, the construction and expansion of global safety nets—that were previously outside the scope of the existing agendas (Moon 2011, 164-168).

As the chair country of the fifth conference, Korea endeavored to seek a breakthrough on the five categories listed above. The results of this conference show both the potential and limitations of Korea's multilateral diplomacy in the politics of global economic governance. In terms of the first category of a "framework for strong, sustainable, and balanced growth," Korea was initially successful in bringing two conflicting countries, the United States and China, to agree upon "market determining exchange rates and refraining from competitive devaluation." However, a major limitation soon revealed itself, in that the agreement merely carried a declaratory meaning without any binding power. As for the second category, "reformation of international financial institutions," an agreement was made to transfer 6.0% and 6.2% share of the IMF respectively to emerging economies and depopulating countries. The agreement also stipulated transferring from Europe to emerging economies two seats of a total of 24 in directorship. Nevertheless, the reform left much to desire in that it could not make any change to the veto power that the United States holds, with16.75% of the total share (15% is the veto line for major issues in the IMF). On a similar note, emerging economies demanded that 1) the president of the IMF should be selected on the basis of one's capability rather than nationality, and 2) the IMF quota formula should adopt the purchasing-power parity (PPP) per gross domestic product (GDP). Both the proposals were rejected (Kim, 2012). Democratizing the governance structure of the IFIs turned out to be still a long way to go.

As for the third category, "reformation of financial regulations," the fifth conference bore some fruit. Regulations for systemizing important financial institutions were introduced. The Basel Committee came to wield the power to create new regulations on Banking Supervision for capital liquidity.

The three categories include the most controversial and contested issues among the members of the G-20. Therefore it may not do justice to Korea's performance in terms of the G-20 and multilateral diplomacy as discussed above. Korea, and for that matter even the United States, do not have the ideational and material resources to resolve these issues. Alternatively, there are two other issues that can be used to more fairly assess the potential and limitations of Korea's multilateral diplomacy. They are the "expansion of global financial safety nets" and "development agenda." The reasons why the two issues can be good indicators of Korea's diplomacy at the global level are two-fold. First, these were the issues that the members of the G-20 did not show much disagreement and contestation among them was limited. The members were more or less empathetic toward the necessity of making meaningful progress. Second, these were the issues that Korea ambitiously pitched at the fourth conference as main agenda items for the fifth conference in Seoul. The fact that the two issues comprised the "Korean Initiative" in Seoul is telling of the level of commitment Korea made to try and translate its policy preference into global practice.

On the issue of "expansion of global financial safety nets," Korea proposed measures to improve utilization of the Flexible Credit Line and the Precautionary Credit Line. Korea made this proposal with the strong support of those member states critical toward the inelasticity of the emergency relief fund from the IMF. Korea also proposed to expand cooperation of the IMF with a local safety net, such as the CMIM. The Flexible Credit Line is a system that provides unconditionally an emergency relief fund from the IMF when a state with high financial integrity falls into a short-term liquidity crisis. The Precautionary Credit Line is a system that also provides a fund with a few conditions to countries that do not meet the requirements for the Flexible Credit Line but have financial integrity. The discussion on the Flexible Credit Line ended up reconfirming the existing ones. But Korea made a meaningful achievement on the Precautionary Credit Line. Korea introduced it to the discussion for the G-20 for the first time and garnered enough support from member states to put it into practice. Despite these achievements, the fifth conference clearly indicates how far Korea could go in forging global consensus. The meeting made little or no progress at all on tackling the most fundamental challenge to stability of the world economy, namely regulating the movements of international short-term capital speculation. The fact that most of the private funds and equity funds that manage the short-term movements of capital around the globe are based in Europe and the United States cannot be discounted as a major factor.

On the issue of "development agenda," Korea successfully rallied the members of the G-20 behind the "Seoul Development Consensus." As a new platform for global economic development, the Consensus was designed to more effectively fight poverty and further economic development of developing countries. The Consensus aimed to be an advanced method of foreign aid. The core feature of it is that aid-givers (or donor states) help developing countries formulate their own developmental policies and plans fitting the particularities of their socio-economic needs. Aid-givers can make such ideational contribution by sharing their development experiences and policy expertise. This ideational support is to come with material contributions to the recipient states. Another noteworthy point is also that the Consensus advocates a "multiyear action plan" that enables the long-term partnership of donor and recipient states. It is too early to assess the relative success or effectiveness of the Consensus. But some limitations have already been observed in this area as well. First, it is unclear as to how the "Seoul Development Consensus" is to be integrated into the aid regimes of developed countries. Additionally, it is questionable if the IMF and the World Bank, the two most influential global institutions in charge of controlling the economic development paradigm, are willing to revise their neoliberal lending practices and conditionalities in line with the Consensus. As such, there remains the unpleasant possibility of the"Seoul Development Consensus" becoming nothing more than another declaratory statement.

In sum, Korea has played and tested a potential role of a rule-setter through the global G-20 and its use of multilateral diplomacy. In these multilateral processes, Korea has also experienced challenges and limitations as a non-great power. Although the G-20 is only at the early stage of institutional development, it has a great potential to be a truly effective forum that shapes the international economic order. This potential is evident in the G-20's nontrivial achievements over the last 3 years, one of which is achieving IMF reform. G-20 led IMF reform is regarded as one of the largest in the IMF's 65 years of history. As such, it is highly expected that the G-20 will continue to perform as the leading global economic governance forum (Kim, 2012). The G-20 is now being further institutionalized. Discussion on the installation of the executive office has already begun, kicking off at the 2011 Paris Conference. With this in mind, Korea has to devise ways to strengthen its multilateral diplomacy at the global level. It has to find ways to share the authorship of global economic governance.

As observed in the development processes of the CIMM, Korea has been a significant player in institutionalizing East Asian financial and monetary cooperation. Korea's status in regional politics is substantial. At the same time, however, Korea lacks the capacity of being able to act alone both regionally and globally. As such, Korea should use its networking power and position effectively with creative policy ideas so that it can shape regional and global economic governance in its preferable way. As elaborated above, the starting point for Korea's multilateral linkage is to secure a strong foothold in East Asia for policy cooperation and coordination at the global level. At present, Korea is seeking a window of opportunity that will allow it to become a rule setter, writing regional and global economic governance structures. To achieve both aims, Korea should work as an architect that co-designs the international economic order through a region-based middle power network strategy. Korea stands at a critical juncture in the strategic context of a rising China for its linkage diplomacy. As discussed below, the current stage of institutional development in East Asian financial and monetary cooperation also calls for Korea's strategic resolve.

V. Korea's Linkage Diplomacy

From a geopolitical point of view, the next 5-10 years loom as the best chance for Korea to link regional and global goals. This is because all major stakeholders in East Asia want regional cooperation expansion in this period, albeit for differing reasons. China, who has been actively supportive of institutionalizing East Asian financial and monetary cooperation, is likely to continue its commitment to this end for the next 10 years. It is improbable that China will overtake U.S. national power by 2020. As such, for a peaceful rise, China needs to construct cooperative relations with East Asian countries both practically and symbolically (Sohn 2009; Jiang 2010). As for Japan and the ASEAN, they want to institutionally lock-in China during its expansion period, not when it is at its peak. This becomes one major source of their support for institutionalizing East Asian cooperation (Hayashi 2006; Grimes 2009; Katada 2009; Ba 2010). Korea's strategic position thus would work favorably for its multilateral diplomacy in East Asia before China's overtaking of or a China on par with the United States.

China has a good understanding of East Asian countries' institutional lock-in strategies. Nevertheless, China is likely to continue its support for such institutionalization efforts for the following mutually non-exclusive reasons. First, China can promote mutual trust within the region and create a positive local atmosphere through the institutionalization of financial and monetary cooperation. The favorable local conditions can position China better when it deals with strategic challenges in and outside of East Asia. Second, multilateral institutionalization binds China; however, it also binds other countries institutionally as well. As China's influence in East Asia grows, the double-sided institutional constraint could work in China's favor. Moreover, a policy derived from multilateral discussions can obtain legitimacy. This further helps sustain China's influence in East Asia in a non-hegemonic way (Ikenberry 2001). China's recent proposal to create an Asian Infrastructure and Investment Bank illustrates China's significant interests in East Asian multilateralism. Additionally, it is much better for China (as is the case for Korea) to work on a firm regional institutional foundation in its competition with the United States and Europe for global leadership. Last, China can entertain "the learning effect" for global leadership. China can cultivate its leadership in multilateral settings through its repeated interactions with East Asian member states. These multilateral experiences can be translated into assets for China's global leadership if used properly. China has already begun tapping into its multilateral experiences in East Asia when pursuing multilateral diplomacy in Africa, the Middle East, and Latin America (Sohn 2012b).

Along with these favorable strategic environments, the current institutional development level of East Asian regional cooperation calls for Korea's active multilateral diplomacy. True, the APT has successfully mustered up regional cooperation for the subsequent developments of the CMI, the CMIM, and the AMRO. It is a remarkable achievement for the region, which does not boast a solid track record of region-wide institution building experiences. It is also laudable in consideration of the diversity among the APT states in ethnicity, religion, political systems, economic developments, and security arrangements. Not many pundits and scholars predicted correctly the institutional survival of the CMI when the APT got off the ground in 1999, let alone the emergence of the CMIM and the AMRO.

Despite these institutional developments, there are still many challenges for the APT to meet if it wishes to turn the CMIM into an AMF, a full-fledged regional institution. Two issues particularly loom large in this respect. The first challenge is to clarify the logistics of activating the CMIM in times of financial crisis. This has to do with the APT's agreement on lending prescriptions and conditionalities under the CMIM. Clarifying and institutionalizing them is critically important precisely because it directly relates to the CMIM's institutional ontology. If the CMIM is to have the same lending prescriptions and conditionalities as the IMF, there would be no rationale for its institutional development, other than, say, that the CMIM is a regional office of the IMF as a cash cow.

Re-establishing the CMIM's relationship with the IMF is also crucial. Under the current CMIM system, 70 percent of funds for an emergency bailout are linked to the IMF. Indeed, the IMF de-linkage portion increased from 10% in 2000 through 20% in 2005 to 30% in 2013. The APT plans to increase it up to 40% in the near future. Korea was a co-chair country of the APT Finance Minister's Meeting and played a major role in increasing the IMF de-linkage to 30% in 2013. The IMF de-linkage portion will be likely to increase further when the APT clarifies and institutionalizes the CMIM's lending prescriptions and conditionalites. In this respect, the AMRO's role cannot be overemphasized. After all, the AMRO is the only surveillance unit in East Asia. The contents of lending prescriptions and conditionalities are inseparable from the way surveillance works, monitors, and reports. The APT also has yet to work out the details of AMRO's monitoring function in terms of range, depth, and the mandate of policy recommendation (how compulsory can it be to members?). How would the APT establish the CMIM's relationship with the IMF? Would it make the CMIM to compete the IMF institutionally? Would it make the CMIM complement the IMF? If so, what would be the areas of competition and complement between the CMIM and the IMF? All these are important questions that must be addressed by the APT sooner or later for the future of East Asian financial and monetary cooperation.

As such, East Asian financial and monetary cooperation is at a crossroad, waiting for major decisions to be made for its future. The APT can succeed in consolidating the existing efforts toward the making of an independent, autonomous AMF. Or, the APT may come to an institutional deadlock. The CMIM may end up as a failure like the Asia-Pacific Economic Cooperation (APEC) (Beeson 1999 Ravenhill 2000; Webber 2001). The APT is by and large in agreement on the necessity of furthering the CMIM to be more independent. There exists, however, some disagreement and differences among APT members over the pace, scale, and other details of the future of the CMIM. In this context, Korea is also at a crossroad. Is Korea willing to push through all these challenges? Can Korea manage the China-Japan rivalry and the ensuing leadership competition in these processes while carving out a space for its independent voice? How would Korea cultivate its regional role as the hub of institutional cooperation for its global ambition?

The G-20 provides a critical lesson for the importance of multilateral linkage diplomacy for Korea as well as East Asia. Despite sizable economic clout in the world economy, East Asia has left no trace collectively in G-20 meetings, in the sense of making a policy impact on major issues under deliberation. This was due mainly to the absence of any policy coordination by China, Japan, and Korea. The divided East Asia was ultimately pushed aside, playing a relatively and comparatively timid role (Tiberghien 2011). As detailed above, for example, Korea made tremendous efforts to institutionalize change for a development paradigm through the "Korean Initiative" at the G-20 Seoul. But the outcome was less than satisfactory, leaving much to be desired. Alternatively and counterfactually, China, Japan, and Korea could have collectively worked together more so that a more robust implementation of the "Seoul Development Consensus," could have occurred. These three countries basically share a state-led economic development paradigm, and the "Seoul Development Consensus" could have been an "East Asian Development Consensus" with the appropriate policy coordination efforts.

Of course, it is not possible for China, Japan, and Korea to agree on all issues. Nevertheless, there needs to be policy coordination efforts to close the gap on key issues and formulate collective responses to regional and global economic challenges. East Asian multilateral cooperation will usher in the patterns of interaction and cooperation within the region, which can establish the background of policy coordination in the global arena. Multilateralism is not a panacea. But Korea should take advantage of what multilateral diplomacy can offer to a middle power that seeks to increase its global influence without losing out on its policy autonomy in the midst of ever deepening global interdependence. ■

Endnotes

[1] By East Asian states I mean in this paper ASEAN plus Three (China, Japan, and Korea) countries that have collectively made substantial degree of regional economic cooperation.

[2] For further details, see the "Joint Ministerial Statement of the ASEAN+3 Finance Ministers' Meeting," May 4, 2006; accessed at < http://www.aseansec.org/18390.htm>.

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