
The Straits Times

ASIA'S LEADING NEWSPAPER OF THE YEAR

Review - Others

G-20: Gulliver and Lilliputians?

Simon Tay

867 words

14 October 2009

Straits Times

STIMES

English

(c) 2009 Singapore Press Holdings Limited

CRISES provoke changes. The initiative to bring together the world's 20 largest economies last November was one change the global economic crisis instigated. The Group of 20 (G-20) summit meeting in September in Pittsburgh was only its third. But the G-20 has already emerged as the key grouping in the global crisis.

Why? How has it performed? What are the possible dangers?

The rapid rise of the G-20 is due largely to the absence of any other effective global organisation. The old G-7 consisting of the established powers no longer sufficed for it did not take into account the rise of China, India and Brazil. The established economies were no longer able to move the world without acting in concert with a number of players which weren't in their club. Moreover, the largely Euro-American nature of the G-7 seemed too narrow.

The International Monetary Fund, which dealt with previous financial crises, was also overdue for reform. Its handling of the 1997-98 Asian financial crisis has been questioned, with some accusing it of having made matters worse. Moreover, with the epicentre of the current crisis in the United States and Europe, the IMF was placed on the sidelines.

Asia has undoubtedly gained from the G-20. Only Japan was a member of the G-7. Now China, Indonesia, South Korea and India - as well as Australia and Thailand, as the current Asean chair - are part of the G-20.

But has the grouping been effective? There are real differences between the member states on fiscal and monetary policies. The stimulus packages each introduced differed dramatically in size and scale, reflecting different underlying philosophies. The G-20 has also steered clear of some key but controversial issues like how the US and Europe propose to clean up their respective banks and the long-term role of the US dollar.

Instead, the G-20 has been taken up with other issues, where the interests of its members may not coincide with those of the world as a whole. Climate change, for example, featured in the discussions at Pittsburgh. There is a danger that large, powerful states might come to an agreement among themselves on this issue and then dictate to others.

Another issue the G-20 has taken up has been tax havens. It has issued black and grey lists to identify and pressure the countries it considers to be behaving badly in this area. The US, for example, has pressed Switzerland to release the names of American citizens who have deposited funds with UBS Bank, suspecting these depositors of having illegally avoided paying US tax.

No one should condone tax evasion. But the issue does not seem to have been directly related to the financial crisis that began with American banks.

Another area of divergence between large and smaller countries is that of free trade. Despite G-20 proclamations, many large countries have found ways to limit imports and protect their producers. The most recent example is the US decision to restrict imports of tyres from China. Such actions signal the diminishing belief in globalisation among countries with the largest markets.

Medium- and smaller-sized countries with open economies cannot afford this luxury. In Asia, such countries would include Singapore as well as Malaysia and Thailand. Similar countries elsewhere would include Chile, Holland, New Zealand and the Scandinavian states.

These countries have gained from the global economy. As medium- and smaller-sized countries, they have had to follow international trade rules, rather than make them or break them as more powerful countries can.

Some among them have been able to attend the G-20 but they are not fully within the group. The G-20 is now a permanent institution. Cooperation among the biggest powers is indeed important. But there is no guarantee that large countries will take into account sufficiently the concerns of smaller countries.

Rather than aspire to get into the G-20, medium- and smaller-size countries open to the global economy may be better served by organising among themselves. Working together, they might make their views better known to the G-20 and collectively have a weight that none of them would have separately.

The 'G' in G-20 stands simply for 'group'. But with the largest and most powerful countries on board, it could just as well stand for 'Giant' or 'Gulliver'. The smaller open economies might consider coming together as an 'L-20' - 'L' standing for Lilliputians.

In Jonathan Swift's tale, the giant Gulliver could not be constrained by the Lilliputians who tried to tie him down with ropes. He snapped them like threads.

The Lilliputians should not hope to tie down the Gulliver 20. But they can hope to guide the G-20 to decisions that are best for the global system as a whole - and, in the process, prevent the giant states of the G-20 from stepping on them, inadvertently or otherwise.

The writer is chairman of the Singapore Institute of International Affairs. Think-Tank is a weekly column rotated among eight leading figures in Singapore's tertiary and research institutions.

Document STIMES0020091013e5ae0002k