No. 136/2010 dated 29 October 2010

The G20: Should Europe Give Way to Asia?

By Barry Desker

Synopsis

As the G20 takes firmer shape and evolves as the premier world forum to manage the global economy and finance, fundamental shifts are taking place. It is time to ask whether Europe is over-represented and should give some way to Asia.

Commentary

SOUTH KOREA is hosting the G20 meeting on 11–12 November 2010. From Singapore’s perspective, the meeting is important as it will discuss critical issues facing the global economy. As a major global financial centre, Singapore has a keen interest in the issues which will be addressed in Seoul. Prime Minister Lee Hsien Loong is officially invited to the meeting as one of five non-G20 nations invited to attend the Seoul Summit.

Economic Power Shift

One of the key areas of focus in Seoul will be exchange rate policies and the impact of external imbalances. We are witnessing increasingly complex structural problems that might hinder global growth. It is essential that global financial safety nets are strengthened by improving International Monetary Fund (IMF) lending facilities and enhancing the links between regional financial institutions and the IMF.

Arising from the global economic meltdown of 2008, there are renewed demands for a new global architecture that will include an enforcement mechanism for oversight of financial aspects of global governance issues. The Seoul Summit should address such issues.

As an economic power shift from the Atlantic to the Pacific occurs, global economic institutions need to reflect the contribution of different regions to global prosperity. Europe is over-represented in the G20 with participants from Germany, France, United Kingdom and Italy and attendance by Spain and the Netherlands, while only South Africa is included from Africa. The IMF still reflects the power balance at the end of World War Two, despite the recent agreement to increase China’s contribution to its budget and the decision to allocate two European seats to emerging markets by the end of 2012.

Similarly, the United Nations Security Council, the premier global political and security institution, has the victors of the Second World War as its permanent members with the right of veto. As the European Union claims that it has a common foreign and security policy, it is time for the United Kingdom and France to yield their seats to an
EU representative, allowing an emerging economy such as India or Brazil to take the vacant slot.

Other aspects of this pattern of Atlantic dominance are even more curious. The President of the World Bank is always an American while a European heads the IMF. While it is a convention that a European can head the World Trade Organisation (Renato Ruggeiro of Italy and Pascal Lamy of France have done so), the United States has never served as the head of the WTO or its predecessor, the General Agreement on Tariffs and Trade (GATT). This is ironic as major problems within the WTO have resulted from the EU’s attempts to export its regulatory framework into the WTO.

One example is the EU insistence on the dreadful notion of ‘geographical indications’ that link a product to a place. Champagne can only be sold as champagne if it hails from the Champagne region of France. No wonder that wine dealers are now using varietal identifications such as Sauvignon Blanc, Merlot or Chardonnay. Perhaps it is time for Iran to claim ownership of the Shiraz wine grape!

Legitimacy vs Efficiency Debate

Another debate is about the issue of legitimacy versus efficiency. Some countries that are not part of the G20 may have legitimate concerns that their voices are not being properly heard. It is important that the G20 endeavour to establish an institution of global governance that meets the interests of nations and peoples beyond its membership. It should be perceived as the custodian of global interests, not the advocates of the interests of more powerful states. One result is that there is resistance when the outcomes of these more selective gatherings are presented for adoption by the larger global community.

The pattern is one of resistance and opposition by countries representing the one billion who are left out of the processes of globalisation. The Doha Round of WTO negotiations has been deadlocked by the inability to provide substance to the claim that it is a “development” round.

The Seoul Summit is significant as it is the first G20 Summit not hosted by a member of the Group of Eight industrialised economies or G8. The G20 could serve as a bridge between the developed and developing countries. Europe has focused on strengthening global regulation, using as a model, the processes of EU integration and regulation. However, Asian states as well as many developing economies have emphasised the importance of deregulation. In many developing economies, economic over-regulation has been the bane of development economists.

The Asian emphasis has been on increasing the role of the private sector while the tendency towards over-regulation has been associated with inefficiency, corruption and the heavy hand of the state. There is therefore a fundamentally different approach to regulation compared to Europe.

South Korea, like other Asian economies, has enjoyed strong economic growth. It will come under increasing pressure to re-value its currency and to focus on domestic demand. It also faces rising protectionist pressures in the United States and Europe. Seoul therefore faces many of the challenges confronting China and other Asian economies which have enjoyed an economic boom amidst a global recession. South Korea is well placed to draw attention to these Asian concerns to other members of the G20 and to lead the Asian push for a re-balancing of global institutions.

Barry Desker is Dean of the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University.