

The G20 and Global Democracy

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Introduction

The G20 is a part of global governance, and its establishment is a stepping stone towards global governance reforms because it strikes a balance between legitimacy and efficiency and it recognizes the shift of global gravity to the East and South. In this paper, I argue that the G20—a hodgepodge of advanced democracies, emerging-market democracies, and non-democracies—must avoid political discussions involving topics on democracy as it can create political divisions and tensions that will overshadow the global economic cooperative spirit which the G20 strives for. First, there is no consensus of what democratic value is. Second, democracy is only a form of government, but there is no consensus that it is the best form of government (for example, Singapore and China have flourished under a one-ruling party government¹). What the G20 should do is to promote “global democracy”.

Although economic globalization has raised billions of people out of poverty, it has also increased inter- and intra-state inequality. National policies have cross-border impacts on the lives of citizens in other nations—both poor and rich nations—but countries with small wealth-shares in the world economy are not equally represented in global institutions. The IMF, World Bank, WTO, and other international institutions remain largely answerable to industrialized nations, and many decisions of some of these international institutions remain opaque. I recommend that the G20 should help to strengthen the democratic structure of international institutions and complete the governance reforms of those institutions, including the IMF quota and voice reforms, and the fair and transparent election of heads and senior leadership at these institutions.

The G20 should help to reform the current financial system that privatizes gains and socializes losses, otherwise financial and eventually social stability will be at stake. Lastly, the G20 must continue to improve its legitimacy by reaching out to other non-G20 members, protect the voice of the poorest nations, and bring to the G20 table issues related to the impacts of economic globalization, including inequality.

¹ Singapore’s recent watershed election on May 7, 2011, shows that a more prosperous society with more educated and politically informed citizens will naturally demand less government surveillance and wider democratic space. This also shows that timing and sequencing of democratization are crucial.

Emerging-market Democracies in the G20: Looking for Identity

The G20 is a hodgepodge of “advanced democracies” (G7, Australia, and the EU), “emerging-market democracies” (Argentina, Brazil, India, Indonesia, Mexico, South Africa, South Korea, and Turkey), and “non-democracies” (Russia, China, and Saudi Arabia).² Among the G20 countries is the US, which is “the premier democratic country of the modern world,” and whose identity as a nation is “inseparable from its commitment to liberal and democratic values.”³ Australia, Canada, the US, the UK, France, (West) Germany, Italy, Japan and Argentina had their first histories of democratization during the “first-wave of democratization” between 1828-1926, while Brazil, India, South Korea, Turkey, and Indonesia had their first histories of democratization during the “second-wave of democratization” between 1943-1962 (although Indonesia experienced a reverse of democratization in the 1957 and only returned to being a democracy in 1999, following the fall of Soeharto).⁴

The advanced democracies currently account for up to almost 66% (in 2009) of the world GDP while the emerging-market democracies and non-democracies each make up only about 11% of the world GDP. The striking difference of the economic growth rates between the G7 (an estimated average of 2.31% in 2010) and the emerging-market democracies (an estimated average of 6.56% in 2010) plus the non-democracies (an estimated average of 5.95% in 2010) sets a path for the emerging-market democracies and the non-democracies to overtake the power of the advanced democracies in just a few years to come. The IMF recently forecasted that the Chinese economy based on PPP was predicted to surpass the US economy by 2016 (April 28, 2011). Many of the G7 countries are still yet to deal with their deep fiscal and debt crises, whose recovery remains unstable. The recent seismic earthquake, tsunami, and nuclear crises in Japan also damaged seriously the world's third largest economy. In May 2011, the Japanese economy was declared to be undergoing a recession with two consecutive quarters of negative growth. History has shown us that as these new emerging-market democracies and non-democracies became relatively more influential in economic terms, they will also become more politically influential. For example, China has on many occasions already shown her intention of becoming a regime maker instead of a regime taker, for example by rejecting the “Western-style democracy” and disregarding pressures to devalue the Yuan.

² Marc F. Plattner, “The Impact of the Economic Crisis. From the G-8 to the G20,” *Journal of Democracy*, Vol.22 (1): 31-38.

³ Samuel P. Huntington, *The Third Wave. Democratization in the Late Twentieth Century*. (Norman and London: University of Oklahoma Press, 1991), 29-30.

⁴ Huntington, *The Third Wave*, 14, 16.

In its simplest term, democracy is about contestation and participation.⁵ The thin definition of democracy, according to Larry Diamond, follows Joseph Schumpeter's definition in the 1940s: "a system for arriving at political decisions in which individuals acquire the power to decide by means of regular, free and fair elections."⁶ The thick definition requires ten attributes on top of regular, free and fair elections. Unless these attributes are also ensured, it is not yet a democracy. The ten attributes include: freedom of speech; freedom of ethnic, religious, racial, and other minority groups to practice their religion and culture; legal equality of all citizens under a clear and publicly known rule of law; an independent judiciary to neutrally and consistently apply the law and protect individual and group rights; freedom of individuals from torture, terror and unjustified detention exile, or interference in their personal lives; institutional checks on the power of elected officials by an independent legislature, court system, and other autonomous agencies; a vibrant civil society; control over the military and state security apparatus by civilians. All of the so-called democratic states should aspire to this thick definition, which is also called *liberal democracy*.⁷

Why should we care about democratic aspirations when China, for example, may prosper economically as a socialist country? Can an authoritarian regime be in fact an advantage to political order and economic growth? Some argue that we should care. Huntington argues that it matters whether a country is a democracy or an authoritarian state.⁸ He shows that political democracy is empirically closely associated with freedom of the individual and political stability. Moreover, historically, democracies have not fought with other democracies, with only a few exceptions. Hence, the spread of democracy expands the zone of peace and inter-state stability. These arguments may not be sufficient, though. Many democracies are "flawed", with the absence of or violations to the above-mentioned ten attributes.

Following the 2008 Global Financial Crisis (GFC), which originated in the US and Western Europe, which are all advanced democratic countries, some predicted an erosion of free-market and democratic ideology and legitimacy. Democratic attributes were breached when, for example, the legal equality of all citizens to have an equal say on how the financial market should be regulated was undermined, and free-market attributes were breached when the state selectively intervened in the market. In the US, trillions of dollars of

⁵ Huntington, *The Third Wave*, 7.

⁶ Larry Diamond, *The Spirit of Democracy. The Struggle to Build Free Societies Throughout the World*. (New York: Henry Hold and Company, LLC, 2008), 21.

⁷ Larry Diamond, *The Spirit of Democracy. The Struggle to Build Free Societies Throughout the World*. (New York: Henry Hold and Company, LLC, 2008), 22.

⁸ Huntington, *The Third Wave*, 28.

tax-payers' money were injected to save a few large private banks⁹ and “bad mortgages from the books of financial institutions in America [were moved], and onto the books of the federal government”¹⁰ while millions of jobs were lost as a result of the crisis. But, even more damaging was in fact the *failure* to save these systemically large financial institutions, such as Lehman Brothers, that resulted in the collapse of the global financial system. In the UK, taxes were raised, public services were cut down, and school tuition fees skyrocketed, and the impacts were very much felt by British common citizens (at least in some parts of the country). Furthermore, money is corrupting politics.¹¹ A democracy that is controlled by a group of financially powerful elites is *not* a democracy.

So, with the shift of the global power to the East and South, which is less democratic than the West, and with the unprecedented government interventions in the market during the 2008 GFC, is world democracy under threat?

“We are in a very fluid situation.. The old moral compass is challenged,” said Diamond from the Hoover Institute.¹²

It is not surprising that the “old moral compass” has been challenged. Basu contended that “wars are often waged in the name of democracy and freedom.”¹³ The extreme cases of Vietnam, Iraq, Afghanistan, and Libya have provoked controversies among the emerging-market democracies and the non-democracies about the true motivations behind these wars. Iraq and Libya are clearly strategic countries with a bountiful strategic commodity—oil. “When one accounts for the human toll of the firepower used in some of these theatres of war, it takes a handsome amount of gullibility to believe that wars are indeed in the interests of freedom and democracy in the nation being bombed,”

⁹ As of early 2010, the Congressional Budget Office puts the taxpayer cost of rescuing Fannie Mae and Freddie Mac at \$300 billion, and AIG at \$36 billion. Source: Kenneth R. French, Martin N. Baily, John Y. Campbell, John H. Cochrane, Douglas W. Diamond, Darrell Duffie, Anil K Kashyap, Frederic S. Mishkin, Raghuram G. Rajan, David S. Scharfstein, Robert J. Shiller, Hyun Song Shin, Matthew J. Slaughter, Jeremy C. Stein, René M. Stulz, *The Squam Lake Report. Fixing the Financial System*. (Princeton and Oxford: Princeton University Press, 2010), 231, 237.

¹⁰ APEC Study, “Contributing to Efforts for Greater Financial Markets Stability in APEC Economies,” Draft of Final Report, *mimeo*, April 2011.

¹¹ “Companies are the major funders of political campaigns in place like the US...Roughly one-half of US Congressmen are millionaires, and many have close ties to companies even before they arrive in Congress. ... The result is a culture of impunity, based on well-proven expectation that corporate crime pays.” Source: Jeffrey D. Sachs, “The Global Economy’s Corporate Crime Wave,” *The Jakarta Post*, May 11, 2011.

¹² Ward, “How will Democracy Fare?”

¹³ Kaushik Basu, *Beyond the Invisible Hand. Groundwork for a New Economics*. (New Jersey: Princeton University Press, 2011), 180.

Basu argued.¹⁴ Official statistics showed that US bombing during the Vietnam war translated into hundreds of kilograms of explosives per capita during the war. Recently, China retaliated politically by accusing the US of human rights double-standards, demanding internet freedom overseas while imposing harsh restrictions at home.¹⁵ China's State Council Information Office reported "its malicious design to pursue hegemony under the pretext of human rights."¹⁶

A Nobel Prize Winner in Economics, Joseph E. Stiglitz, recently wrote: "Americans have been watching protests against oppressive regimes that concentrate massive wealth in the hands of an elite few [Tunisia, Egypt, Libya, etc.]. Yet in our own democracy, 1 percent of the people take nearly a quarter of the nation's income - an inequality even the wealthy will come to regret."¹⁷ This is clearly a sad reality portrayed from "the premier democratic country of the modern world" and the world's second largest democracy.¹⁸ India, the world's largest democracy, has been battered with a web of scandals, from the flawed 2G spectrum auction to inflated contracts for the Commonwealth Games to the lucrative real estate deal: "this web of scandals...is deeply corrosive of India's democracy and could lead to a loss of public faith in the country's democratic political institutions."¹⁹ "The recent scandal in India is nothing new. But recent accusations appear to place India in the same class as Africa's worst kleptocracies."²⁰ Indonesia, the world's third largest democracy, is at a standstill²¹, and if social issues worsen and social capitalism of "unity in diversity" breaks apart, religious radicalism and terrorism may threaten the country's security, stability, and prosperity.

In other parts of the world, many countries are undergoing transitions to democracy. Many Central and Eastern European countries are undergoing post-communist transitions to democracy. Currently, many countries in North Africa and throughout the Middle East are experiencing different degrees of political crises to topple their authoritarian/dictatorial governments. Meanwhile, Singapore has just experienced a watershed election, where the opposition party gained the highest, albeit small, number of seats

¹⁴ Kaushik Basu, *Beyond the Invisible Hand*, 180.

¹⁵ Tania Branigan, "China Accuses US of Human Rights Double Standards," published April 11, 2011, available at <http://www.guardian.co.uk/world/2011/apr/11/china-us-human-rights-double-standards>.

¹⁶ Branigan, "China Accuses US."

¹⁷ Joseph E. Stiglitz, "Of the 1%, by the 1%, for the 1%," *Vanity Fair*, May 2011, 126.

¹⁸ Huntington, *The Third Wave*, 29-30.

¹⁹ Sumit Ganguly, "Corruption eating at India's democracy," *East Asia Forum*, May 13, 2011.

²⁰ Sandy Gordon, "India and China: Mega-population, mega-corruption, mega-growth," *East Asia Forum*, May 10, 2011.

²¹ John McBeth, "Indonesian democracy at standstill," *The Straits Times*, May 10, 2011.

in parliament in its history. ASEAN Secretary General, Surin Pitsuwan, was confident that democratic governance among ASEAN countries would be the future norm, as he quoted Winston Churchill that democracy was “the least bad form of government.”²² This dynamic highlights that democratization may occur through “shock therapy” or “gradualism” and sequencing matters. Moreover, it is usually the young people, albeit sometimes with Western pressures, that drive a country towards transition towards democracy. Democracy is “contagious” and we witness an increasing number of countries becoming democratic. But, at the same, we also witness some old democracies whose democratic values are degrading.

While the abovementioned “democratic diseases” are worthy and justified criticisms and while democratic dynamism is still evolving, albeit unpredictably, there is no need to re-invent the wheel to find a new meaning to or theory of democracy, or to try to change the ideology and legitimacy of democracy, or even to go back to autocracy, but there is enough room to remove misconceptions and some thinking of lessons learned.

The first misconception is the definition of democracy and hence, the aspiration for democracy. All democracies should aspire to Diamond’s *Liberal Democracy*. The second misconception is that a strong leadership and democracy cannot co-exist. A strong leadership is needed to manage divergent voices to get things done. Democracy also has some pre-conditions to succeed. Democratic consolidation needs a vibrant and well-informed civil society because, as the above examples show, democracy can be easily captured by wealthy elites, where the cycle of inequality may become self-reinforcing as “wealth begets power, which begets wealth.”²³

Do we have a *true* champion of democracy? Plattner²⁴ wrote:

The big question for the future is what role [the emerging-market democracies] will play in the global order: Will their international behaviour be motivated purely by national advantage and by the common interests that they share with fellow developing countries, or will they also pursue foreign-policy goals that reflect the democratic character of their regimes?

Plattner concluded that the emerging-market democracies were yet to decide what they wanted to do on the international political landscape: “The emerging market democracies are still struggling to find their identity in the international order—whether it will be shaped by their opposition to the advanced democracies on issues such as trade, climate change and representation in international

²² Kavi Chongkittavorn, “ASEAN development and democracy,” *The Jakarta Post*, May 24, 2011.

²³ Stiglitz, “1%,” 128.

²⁴ Plattner, “From the G-8 to the G20,” 37.

institutions, or by their common interests as democracies.”²⁵ Despite this view, these are not the only alternatives.

First, Plattner argues that there is little evidence that these emerging-market democracies are to align with the advanced democracies with respect to their internal politics and foreign policies.²⁶ This is evident from the recent event when India, Brazil, and Indonesia joined Russia and China, both are UN Security Council permanent members, to abstain on a UN vote authorizing military strikes to enforce the no-fly zone in Libya, while the three other UN Security Council permanent members, namely France, the US and the UK, were the main supporters of military strikes. Moreover, as Larry Diamond, from the Hoover Institute and the author of *The Spirit of Democracy* (2008), said, “there is little sign of concern for promotion or defense of democracy in the foreign policy of some G20 members.”²⁷ Brazil and Turkey voted against UN sanctions on Iran over controversial nuclear programmes. India has continued to trade with Myanmar and has abandoned her support for Aung San Suu Kyi. Brazil’s former President Luiz Inácio da Silva provided continued sustenance to Venezuela’s Hugo Chavez. South Africa played a key role in supporting Robert Mugabe of Zimbabwe.

Second, the emerging-market democracies and the non-democracies have increasingly concerted their efforts to slowly yet surely dominate the political landscape. IBSA (India, Brazil and South Africa), which is a trilateral grouping of middle-power countries, based on multiracial and multicultural democracies, has changed its shape into a more popular acronym, BRIC. This year’s BRIC Summit marked the entry of South Africa into membership of the group. Although BRICS (now with an added “S”) is not (yet) a political grouping, its economic power as an economic caucus may transform into high political bargaining power. BRICS contribute 18% to the global trade and 45% to the global economic growth, and BRIC economies are expected to overtake the US economy by 2018. “BRICS...an idea whose time has come.”²⁸ Most recently, the IMF Executive Directors of BRICS issued a joint statement to oppose a selection of IMF Managing Director based on nationality.²⁹ With China, a non-democratic country, leading the powerful BRICS economies, one may question whether democracy will become the future norm. China

²⁵ Plattner, “From the G-8 to the G20,” 38.

²⁶ Plattner, “From the G-8 to the G20,” 37.

²⁷ Olivia Ward, “How will Democracy Fare in the G20 World Order?” Published June 19, 2010, available at <http://www.thestar.com/news/world/g8/article/825912--how-will-democracy-fare-in-the-g20-world-order>.

²⁸ Sourabh Gupta, “BRICS and the international economic order - an idea whose time has come,” *East Asia Forum*, May 22, 2011.

²⁹ Available at <http://www.imf.org/external/np/sec/pr/2011/pr11195.htm>

has strong diplomatic relations with many non-democratic countries including Myanmar and North Korea. If Indonesia, the world's third-largest democracy and the three-time host of the Bali Democracy Forum since 2008, is to join the BRICS, it may be under the shadow of China. There is no meaningful reason nor prestige for Indonesia to join the caucus. It should instead strive to excel among the BRICS economies and maintain its balanced relations with both the BRICS and non-BRICS countries.

Therefore, is there room for democracy?

The Politics of the G20: Avoid Political Discussion at the G20 Summit³⁰

Because of its political hodgepodge and divergent political views on democracy, let alone the boundless definition of democracy itself, the G20 should avoid political discussions at the Summit because it may ruin the global economic cooperative spirit that the G20 strives for. For example, "Americans have a special interest in the development of a global environment congenial to democracy,"³¹ while Chinese Premier Wen Jia Bao promised socialism for another century and reiterated that "China must walk its own way in terms of building a democratic system," rejecting Western-style democratic reform.³²

How should the G20 contain political tensions that already exist to begin with even without political discussion on democracy (such as political divisions on the UN vote to attack Libya)? First, the G20 Finance Ministers' and Central Governors' Meeting ("FMCGM") must reach a strong consensus and commitment on economic fronts so that the focus and agenda during the Leaders' Summit will not be lost. This year's FMCGM put a new item on the agenda: controlling excessive commodity and energy (including oil, gas and coal) price volatility, food security and long-term investment in the agricultural sector in developing countries. This agenda is critical due to some factors that make certain commodity prices more volatile: climatic shocks; transportation, distribution, and storage system of food; speculations on the commodity derivative markets; too much demand for growth and a lack of transparency in emerging markets. All this is timely as the political crises in the Middle East and the unprecedented earthquake, tsunami and nuclear crises in Japan pose risks to global energy security. This new agenda aligns with the Seoul Development Consensus on Shared Growth and Multi-Year Action Plan, since

³⁰ This section is a revision to: Maria Monica Wihardja, "The G20 and the BRICS: How to Manage the Politics?" *East Asia Forum*, April 6, 2011.

³¹ Huntington, *The Third Wave*, 30.

³² Richard Spencer, "China Promises Socialism for 100 Years," available at <http://www.telegraph.co.uk/news/worldnews/1544125/China-promises-socialism-for-100-years.html>

food crises affect the poorest first and most. The urgency of this agenda leaves no space for political tension.

Second, in the midst of unstable and uneven global economic recovery, reform momentum should be maintained, including international financial institutional reforms, rebalancing global imbalance, and structural reforms. The indicative guidelines to assess persistently large imbalances and the commitment to regulate the Globally Systematically Important Financial Institutions (G-SIFIs), agreed at the G20 Finance Ministers and Central Governors Meeting in April 2011, were positive steps. The IMF-facilitated Mutual Assessment Process will monitor the consistency of national policies. On 11 March 2011, the IMF also boosted its funding resources ten-fold via the New Arrangement to Borrow, which is a set of credit arrangements between the IMF and 26 old plus 13 new members (among the 13 new participants was BRICS, with China's credit arrangement taking the third largest position after the US and Japan).

Moreover, the IMF quota and voice reforms, placing China as the third largest shareholder and BRICS among the top ten, would increase the quota and voting shares of dynamic emerging markets and developing countries to better reflect the changing position of economies in the world order, although it may still be a long way to go to reflect the new reality. Additionally, the IMF overhauled its lending and conditionality framework, including the new Flexible Credit Line and High Access Precautionary Arrangement, to help with global liquidity issues. The new financial reforms have also been formulated by the Financial Stability Board and the Basel Committee (Basel III), although these are yet to be fully implemented.

While all these reforms have just been put in place, or are yet to be put in place, the G20 leaders need to show full commitment to them.

The G20 was formed in the midst of economic crises (the FMCGM in 1997, the Leaders' Summit in 2008), and it should remain committed to avoiding any possible risk of another crisis. What triggered the political crises in the Middle East were citizens' discontents over a cocktail of dismal socio-economic conditions—persistent poverty, rising food prices and high unemployment to name a few. So, if the leaders' political commitment is to restore peace and stability, tidying up the global economy is the pre-condition; and if the G20 fails to restore or bring momentum to the global economic recovery, then it will exacerbate political instability globally.

If the G20 is to avoid political discussions at the Summit, does the subject of democracy still have any relevance within the G20 process?

Aspiring to Legitimate and Credible Global Governance

Although there is no room for political discussion at the G20, what the G20 can do is to promote “global democracy”.

Kaushik Basu, the Chief Economic Adviser to the Indian Government and a Cornell Professor in Economics, wrote: “political globalization is clearly trailing behind economic globalization. One consequence of this is an erosion of democracy and the tolerance of global inequalities at levels that would not have been tolerated in any economy under a single government.”³³ Stiglitz, a Nobel Prize Winner in Economics, wrote: “The rules of economic globalization are designed...to benefit the rich: they encourage competition among countries for *business*, which drives down taxes on corporations, weakens health, and environmental protections, and undermines what used to be viewed as the ‘core’ labor rights, which include the rights to collective bargaining.”³⁴

Legitimate and credible global governance should align with democratic values. The G20 is a stepping stone towards global governance reforms in a world where the global system is frail. It balances legitimacy and efficiency. Legitimacy is the key element to a representative global institution. Although the members of the G20 were chosen based on an ad-hoc basis, the G20 countries represent about 88% of the global GDP, 66% of world population, and 80% of the global trade in 2010. It also represents eight continents namely Asia, Australia, Europe, Middle East, Africa, Europe, North America, and South America. In order to preserve its legitimacy, several countries that are not G20 countries are usually invited to participate in the summits. For the 2010 Seoul Summit, for example, South Korea invited Ethiopia as the chair of NEPAD (New Partnership for Africa’s Development), Malawi as the chair of the African Union, Vietnam as the Chair of ASEAN (which now has an official representation at the G20), Spain as one of the world’s ten largest economies, and Singapore as the acting leader of the Global Governance Group or “3G”, which is an informal coalition of 28 non-G20, UN member states.

There are further steps to be undertaken by the G20.

First, the democratic structure of international financial institutions must be strengthened. Currently, some international financial institutions such as the IMF and the World Bank remain largely answerable to the industrialized nations.³⁵

Aspiring to more legitimate and credible global governance, the G20 must complete its plan to reform the international financial institutions, including the IMF quota reforms, with the goal to continue the dynamic process of adjusting quota shares to reflect shifts in the global economy. Despite the current IMF quota and voice reform agenda, some observers contend that the quota and voting reforms should be propped up to 50 percentage points of quota and voting shares between advanced economies and emerging and developing countries from the proposed 42.3 and 44.7 percentage points respectively.

³³ Basu, *Beyond the Invisible Hand*, 182.

³⁴ Stiglitz, “1%,” 129.

³⁵ Basu, *Beyond Invisible Hand*, 189.

It was reiterated at the G20 London Summit 2009 that “the heads and senior leadership of the international financial institutions should be appointed through an open, transparent, and merit-based selection process.” Governance reforms, which included the reduction of European countries’ Executive Board representation by two chairs and an appointment of second Alternate Executive Directors to enhance representation of multi-country constituencies, should be pushed for. Upon the resignation of Dominique Strauss-Kahn on May 19, 2011, a new Managing Director from an emerging country, a non-EU country, has even been deliberated, and this deliberation should not be rejected.³⁶

Institutional reforms at international organizations should also include making decision-making processes more transparent. We want to avoid the so-called WTO’s “green room”, where the agenda was pre-set and the results were pre-determined.³⁷

Second, financial regulatory reforms, including the globally systematically important financial institution reforms, must also be pursued. During the 2008 Global Financial Crisis, billions of dollars of taxpayers’ money were used to bail out Fannie Mae, Freddie Mac and AIG, to name a few, while “two years after the biggest financial crisis in history, which was fuelled by unscrupulous behaviour by the biggest banks on Wall Street, not a single financial leader has faced jail.”³⁸ Furthermore, the collapses of these financial institutions and the burgeoning budget deficit of the US have adverse global impacts. Meanwhile, corporate corruption continues to threaten the global economy, and is difficult to contain because big financial companies are so financially powerful and are the major political campaign funders in places like the US.³⁹ Financial regulatory reforms should correct the current financial regulations that privatize gains but socialize losses. “The wealth, power, and illegality enabled by this hidden system are now so vast as to threaten the global economy’s legitimacy...”⁴⁰ Moreover, unfair financial regulations also increases inequality: “Much of today’s inequality is due to manipulation of the

³⁶ As of June 22, 2011, there are two contestants for the Managing Director position: Agustín Carstens, a Mexican national and Governor of the Bank of Mexico, as well as former Deputy Managing Director of the IMF, and Christine Lagarde, a French national, and Minister of Economy, Industry and Employment of France.

³⁷ Basu, *Beyond the Invisible Hand*, 191.

³⁸ Sachs, “Corporate Crime Wave.”

³⁹ Sachs, “Corporate Crime Wave.”

⁴⁰ Sachs, “Corporate Crime Wave.”

financial system.”⁴¹ Currently, almost one-quarter of all income and 40% of US wealth are accruing to only the richest 1% of the total income.⁴²

Third and more challengingly, global governance must ensure a fair representation and participation of a citizen of one country on the international arena regardless of the country’s affluence, especially in a world where policies in one country can affect the lives of citizens from other countries.

Financial deregulations in the US since the early 1980s has been widely blamed as the cause of the 2008 GFC that impacted the lives of citizens in other countries worldwide. This transnational impact has been accelerated by technological progresses, especially in the communication and transportation sectors, where costs are becoming increasingly cheaper.

Transnational and “one person, one vote” voting system are not yet feasible under the current world system. What is more pragmatic is a consensus-building approach, which the G20 adopts currently. However, it must ensure that the voice of poor countries, even with very small wealth and market shares of the world economy, are heard at the G20. This is a challenge for G20 members to represent and reach out to the poorer and poorest nations worldwide.

Lastly, Basu correctly says that “there is an urgent need for an organization that allows for the coordination of national policies for combating poverty and inequality.” Hence, the G20 should also focus on not only combating global poverty, but also inter-country and intra-country inequality that is widening, partly as a result of economic globalization.

Conclusion

In summary, the G20 should avoid political discussion. The Bali Democracy Forum is one possible forum to talk about democracy issues. The G20 should, instead, prop up its efforts in (1) preserving its legitimacy and credibility by including the voices of non-G20 countries, and ensuring that the voices of poor nations, irrespective of their wealth share in the world economy, are fairly represented, (2) continuously pushing for International Financial Institutions governance reforms including the IMF, the World Bank, the WTO, and the ILO to reflect the changing structure of the global economy; the financial regulatory reforms and corporate governance to ensure that financial sectors do not privatize gains and socialize losses; and creating more transparent decision making processes of international organizations, and (3) combating inter- and intra-country inequality partly as a result of economic globalization. The G20, which is based on a non-binding consensus and cooperative modality that is not and should not be a negotiating forum, is already a stepping stone towards

⁴¹ Stiglitz, “1%,” 128.

⁴² Joseph E. Stiglitz, “The IMF’s s with in time, but will governments, market care? *The Jakarta Post*, May 12, 2011.

a global governance reform, but it is still yet to prove that it is a legitimate and credible one.

President Obama, in his address to the British Houses of Parliament on May 24, 2011, stated that the rise of superpowers like China and India did not mean the end of American and European influence in the world. In a globalized world, all nations stand under one nation and hence fair representation of voices from all nations—rich and poor—needs to be protected. We try to avoid one-power dominance within a nation, but we must also remember that we also want to avoid one-power dominance, or two-power dominance, or a hegemony of a group of nations, in the global world. BRICS strikes a balance between emerging countries and the hegemony of the G7. But, it must also be remembered that BRICS, or any other coalition, does not need to form a caucus, although caucusing is encouraged. The G20 should preserve this multilateralism. It is not the time for rivalries, but cooperation.

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