G20 meeting and the international institutions politics essay

The International institutions in charge of maintaining the stability of the global economic system had failed to prevent the crisis. Now they were to fail again: they did not have the capacity to engineer the necessary coordinated response. Economic globalisation had made the world more interdependent, increasing the need to act together and work cooperatively. As yet there was no means in doing so. (Stiglitz, 2010, p210) According to Stiglitz, just after the crisis hit almost the whole world, the industrialized countries recognized that they need to cooperate with other industrialized countries and also with the developing countries to address this problem. The G-8 group was composed from representatives of the advanced industrial countries who met once a year and discussed about the problems which affected the whole world. The so-called leaders of the world thought they could solve large-scale problems like global warming and global imbalances without inviting the leaders of the other countries-representing almost half of global GDP and 80 per cent of the world's population to actively participate in the discussions. (Stiglitz, 2010, p211, 212). It was as if other countries views were in afterthought, something that had to be dealt with politely but not actually incorporated into any important decisions. As the economic crisis erupted, it was clear that the old club could not solve it alone. With the meeting of the G-20 in Washington including newly emerging countries like China, India, and Brazil in November 2008, it was apparent that the old institutions were dying. What the new system of global economic governance will look like may not be clear for years to come. (Stiglitz, 2010, p212). Developing countries were hit very badly from the crisis and with an exception of China most of the developing countries did not have the resources to engage in massive bailouts, which was the case in the developed countries.

While in their meeting the members of the G-20 made a statement about the need to avoid protectionism, the World Bank notes that since, 17 of the 20 countries have undertaken protectionist measures. “ The United States, for instance, imposed a Buy American provision in its stimulus bill that required spending on goods made in United States, but then qualified it in a way that seemed reasonable to say that it would not apply if there were international agreements preventing such discrimination. But America has such agreements on government purchases mostly with developed countries. That meant, in effect, that the stimulus money could be used to buy goods from rich countries but not from the poor countries, which were the innocent of this “ Made in America” Crisis (Stiglitz, 2010, p213).

Since the poor and developing countries did not have the money to finance their own stimulus, the G-20 in the meeting in London, early 2009, provided more money to the IMF which then could be given to the poor and developing countries as loans, the advertised sum was quite impressive, around 1 trillion dollars. But, Stglitz argues that this was not the best way to help the poor and Developing countries, to get out from this crisis. Because of the rules and conditions imposed by the IMF most of the developing countries tried all other options before turning to the IMF, and according to him this was not the best way helping these countries to get over the crisis. He argues that the best way to help the developing countries to get over this crisis would be, if the Developed countries would lend them money in form of a grant which they would not have to return, this was the case of Germany, and it was only an exception not the rule, and other countries did not follow them. Stiglitz argues that United States and other industrialized countries should have spent 1% of their stimulus money to help the developing countries which were struggling with the lack of funds to finance their stimulus.

China and America

The current crisis is so deep and so disturbing that things will change, whether leaders strive to make it happen or not. The most profound changes may concern the sometimes difficult relationship between the United States and China. China has a long way to go before it surpasses the Unites States in GDP-in " purchasing power parity", reflecting differences in costs of living, it is still about one-half that of the United States and even further before it approaches the U. S. income per capita it is about one-eighth. (Stiglitz, 2010, p226) But China has set some impressive records lately; in 2009 China became the world's largest exporter. And, according to the author within the next 25 years, China will become a dominant economy in Asia, and the Asia's economy has a good chance to become larger than that of the USA. Although Chinas economy is still far from that of the United States, the U. S. imports more from China that it exports, and while the U. S unemployment is going up, these trade imbalances have caused tensions between the two states. The Americans find it hard to understand how the U. S. has lost its comparative advantage in many of the manufacturing areas, If China (or any other country) is outcompeting the Unites States, they believe it is because they are doing something unfairly: manipulating exchange rates or subsidizing their products or selling their products below costs (which is called “ dumping”). (Stiglitz, 2010, p 227) In the other hand Stiglitz argues that America is being accused for unfair subsidies, for giving loans to large corporates at an almost zero interest rates, or for maintaining low exchange rates to get competitive advantage.

There is a recognition that something needs to be done about the global imbalances, of which the U. S. – China trade imbalance is the most important component. In the short run, America may find it easier to adjust than China. (Stiglitz, 2010, p228)

China’s growth model has been driven by supply: profits are reinvested, increasing production far faster than consumption, and the difference is exported. (Stiglitz, 2010, p228) But, during the crisis it was hard for China to export the whole surplus, and with this growth model it will be very hard for China to maintain its growth rate in the future. Stiglitz argues that China needs to change its growth model, and one of the ways that he suggests , is that China need to provide more support for small and medium enterprises and to create more local banks. Actually Stiglitz uses the same argument of growth also when he talks about the Unite Stated growth model.

In conclusion, globalisation has made the world very interdependent and it will be impossible that crisis and in particular financial crisis which hit one country not to spread to other countries as well, and day after day there is more need for global regulations and global institutions which will have the duty to prevent these crisis or in cases that there is no possibility to prevent them to minimize as much as possible the damages that those can cause. This was made clear especially after the so called “ Made in America” crisis, were it was no global response to the crisis, and every country had to find its own way out of it.

Another thing that is clear after the latest financial crisis is that some countries have to change their growth model. This is the case especially for China, who although reached some impressive records during the 2009, still in the long term it is obvious that some policies need to change and with that the growth model of the country.