G8 summit: a widening gap between reality and rhetoric

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It is surely a measure of the deepening divisions between the major capitalist powers and their political leaders that the more the problems of the world economy grow, the less they are able to discuss them, much less advance any proposals for their alleviation.

The Group of Eight (G-8) summit held in Evian on June 1-3 occurred amid what is arguably the most serious set of economic problems since the summit process commenced in 1975.

There is the decline of the dollar—the biggest international currency realignment in eight years—the spread of deflation—the first time the world economy has been under this threat since the 1930s—and disagreements over the international trading system. But on all three, the G8 either issued no statement or a communiqué so bland as to be meaningless.

The decline of the dollar captured most attention in the lead-up to the summit, following its rapid fall against the euro over the past month and growing fears that the European, and above all the German economy, will be pushed into recession as export earnings are cut.

In an interview on Russian television before the summit, US President Bush appeared to reaffirm his commitment to a "strong dollar" policy.

"The policy of my administration is for there to be a strong US dollar," he said. "The market, at this point in time, has devalued the dollar, which is contrary to our policy."

Bush repeated this assurance when he arrived in Evian. However the real position of the administration is that the dollar's fall should continue and there will be no intervention to prevent it. As Bush's press spokesman Ari Fleischer put it: "A strong dollar is determined by the market."

Prior to the summit the leaders of both Japan and Germany voiced their concerns over the dollar's slide. "We don't want a further rise in the yen," said Japanese Prime Minister Junichiro Koizumi. Underscoring his government's concern came the announcement that a record 3.9 trillion yen (more than $30 billion) had been spent in May trying to prevent the dollar falling against the Japanese currency.

German Chancellor Gerhard Schroeder warned that the cheaper dollar was "already damaging economic developments as German products are becoming too expensive outside the euro zone."

The problems for Germany are not confined to competition with US firms. With the East Asian economies tying their currencies to the US dollar, German companies are facing increased competition from this region, in particular from firms based in China.

Despite these concerns on the part of leaders of the world's second and third largest economies, the question of currency alignments was not even the subject of an official statement.

A similar attitude prevailed on the issue of economic growth. The G8 leaders ignored the continuing recession in Japan and signs of a worsening slowdown in Europe to accentuate the more positive aspects of the world economy. According to French President Jacques Chirac, the G8 leaders shared "the real conviction that all conditions exist now for a recovery." Discussion had been "very positive" and the leaders had expressed a "message of confidence" that higher growth rates could be achieved.

In one of their joint statements the G8 leaders declared their commitment to "pursue with strong resolve our fight to improve the integrity of the international economy." But no concrete measures to revive the world economy were even discussed, let alone decided on. The reason is that divisions between the major powers, which were developing well before the rift over the US-led war against Iraq, are deepening. These divisions can most clearly be seen in trade relations.

In a comment published on the eve of the summit calling for the G8 leaders to "craft a growth plan", *BusinessWeek* pointed out that "trade relations between the US and Europe are at their worst point in years" with Europe threatening to levy $4 billion in penalty tariffs against the US over tax breaks for US exporters and the US threatening action against a European moratorium on imports of genetically modified corn, soybeans and other crops.

These conflicts have already delayed the so-called Doha Round of negotiations in the World Trade Organisation and could disrupt the WTO ministerial meeting scheduled for Cancun, Mexico, in September.

In their communiqué on trade, the G8 leaders directed their ministers to "pursue urgently" the Doha agenda and committed themselves to "delivering on schedule" a new agreement by the end of 2004. But as the *Financial Times* noted in its report, the whole exercise was largely one of papering over the cracks in the WTO talks because there was no hint of "shifts in negotiating positions that could lead to progress in the talks."

There was no reference to existing disputes, such as the EU's moratorium on GM crops, nor were there any indications that either the US or the EU was prepared to change their farm subsidy systems.

While the G8 has come to be regarded as largely irrelevant as far as management of the global economy is concerned, there are fears that the deep divisions, which have reduced these gatherings to a series of empty communiqués and photo opportunities, could have serious consequences.

Some of these concerns were voiced in an article by *Washington Post* economics commentator Robert Samuelson, published on the eve of the summit.

"To anyone with a sense of history," he wrote, "the Bush administration's decision to bless a cheaper dollar must seem disquieting. Huge US trade deficits have flooded the world with so many US dollars that a sizeable currency decline was likely. But by making US exports cheaper and hurting other countries' exports, this raises the spectre of 'beggar thy neighbour' policies—of protecting your industries at the expense of other countries. It's not free trade; it's political trade. In the 1930s, these sorts of policies arguably contributed to World War II. We need to avoid repeating this."

Samuelson warned "early signs of economic warfare abound" and that if "economies worsen, nationalistic pressures will intensify" in conditions where, because of the interdependence of major economies, a chain reaction of nationalistic policies would be "self-destructive."

"The leaders should defuse this danger. They need to nudge Europe towards deep [interest] rate cuts and Asia away from protective currency policies. The cheaper dollar signifies the US economic engine can no longer support the rest of the world. If other engines don't come up to speed, the craft will continue to lose altitude and, possibly, crash," Samuelson concluded.

He would have found nothing in the summit's deliberations and decisions to allay these fears.