Amid ongoing tensions, G-20 takes few concrete decisions

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The G-20 summit to discuss the world financial turmoil concluded on Saturday after meeting for less than six hours in Washington. All of the leaders acknowledged the need for international cooperation amid the worst crisis since the Great Depression of the 1930s, but the joint communiqué contained little in the way of concrete measures to stabilise financial markets and reverse the rapid slide into global recession.

Behind the public façade of goodwill and collaboration aimed at reassuring global markets, sharp tensions between the major powers were barely concealed. French President Nicolas Sarkozy led the push by European countries for "a new international financial architecture" to rein in the excesses of Anglo-Saxon financial deregulation, while US President George Bush insisted any changes should not inhibit "free-market capitalism". China and India pressed for greater representation in global institutions. Lesser economies, such as Australia, Argentina, South Africa and Indonesia, struggled to have their voices heard at all.

The G-20 statement congratulated the participants for their "urgent and exceptional measures to support the global economy and stabilise financial markets" and urged that these efforts continue. But for all the talk of international cooperation, the G-20 leaders decided to leave matters largely in the hands of the individual national regulatory bodies that failed so spectacularly to foresee or deal with the current financial turmoil.

"At the same time," the communiqué added, "we must lay the foundation for reform to help to ensure that a global crisis, such as this one, does not happen again." To say the least, it is somewhat premature to speak of a future financial crisis when the present one is far from over. Last Friday, the eurozone officially entered recession. Japan's third quarter figures released today showed a second quarter of negative growth. Both the International Monetary Fund and World Bank are forecasting recession for the world's developed economies next year. And fears of recession are already feeding back into the financial markets and contributing to unprecedented volatility on share markets worldwide.

As for the future, the statement declares: "Our work will be guided by a shared belief in market principles, open trade and investment regimes, and effectively regulated financial markets foster the dynamism, innovation, and entrepreneurship that are essential for economic growth, employment, and poverty reduction." In other words, at the insistence of the US in particular, the G-20 leaders upheld the same "free market" program that produced the financial turmoil in the first place.

The European powers, on the other hand, were keen to include a condemnation of the lack of regulation in the US that triggered the crisis. The joint statement, after blaming the crisis on unsound risk management practices, excessive leverage, complex and opaque financial products, politely refers to regulators "in some advanced countries" that did not "adequately appreciate and address the risks building up in financial markets". And so, in response to this total failure of oversight, no one was held accountable.

The joint statement is riddled with contradictions that reflect the competing economic interests of the major powers. The vagueness of its wording prompted former IMF chief economist Simon Johnson to declare: "This is plain vanilla stuff they could have agree on without holding a meeting. What's new, except that this is the G-20 instead of the G-7?" French President Sarkozy suggested that even this formal general agreement was only reached after heated debate. "I am a friend of the United States, but if you ask, was it easy? No, it wasn't easy," he said after the meeting.

On each of the limited points of substance, it is clear bitter haggling took place.

Fearful that global recession would give rise to trade war, the G-20 included a clause agreeing not to initiate new protectionist measures over the next 12 months and to make efforts to restart the stalled Doha round of trade talks. According to the *Washington Post*, Sarkozy "was the slowest to commit to a moratorium on protectionist measures and a reaffirmation of free trade". A senior diplomat complained to the newspaper: "Here you had everyone at the table trying to come together, and Sarkozy was out there trying to write the world according to Sarkozy. It was not helpful."

The last effort to restart the stalled World Trade Organisation (WTO) Doha round collapsed in June amid sharp disagreements over demands by developing countries, such as India and Brazil, for the reduction of agricultural subsidies by the US and the European Union. France in particular strongly opposes cuts to subsidies. Progress in restarting the trade talks is unlikely despite the fact that the World Bank is predicting global trade will contract next year for the first time since 1982. Already the economic downturn in the US, Europe and Japan is hitting exporting countries like India and China.

In the sphere of financial regulation, Britain and France claimed to have made some gains. The British call for major international banks to be overseen by a "college of supervisors" was adopted. French President Sarkozy claimed a victory by getting international oversight on credit rating agencies included. "It is historic to have here in the United States an American administration—where Republicans and Democrats have refused to move on issues such as these—to have agreed to a shift," he said. Senior Bush administration officials, however, downplayed the remarks saying that the agreement did not represent a "pro-regulatory shift".

Moreover, in a significant concession to the US, the statement declared that any changes had to ensure that "regulation is efficient, does not stifle innovation, and encourages expanded trade in financial products and services." This is simply a recipe for more of the same, given that "innovation" in financial products and the expanded trade in financial products and services had their origins in attempts to sidestep regulatory regimes. The whole system of "shadow banking" through the establishment of Special Investment Vehicles was undertaken precisely to get around regulations governing capital adequacy ratios.

Likewise, there was general agreement at the G-20 summit on the need for further fiscal measures by governments to stimulate economic growth. IMF Managing Director Dominique Strauss-Kahn called for coordinated stimulus spending amounting to at least 2 percent of global gross domestic product. The US, however, opposed any coordinated plan, including the setting of stimulus targets. The joint communiqué simply calls for individual countries to take action, "as appropriate".

The inclusion of so-called emerging economies, such as China, India, Brazil, Russia and Saudi Arabia, in the summit was presented as an effort to take account of the shifting world economic realities. As French President Sarkozy declared: "America is the No. 1 power in the world. Is it the only power? No, it isn't. We are in a new world."

Chinese President Hu Jintao called for "a new international financial order that is fair, just, inclusive and orderly." Indian Prime Minister Manmohan Singh declared that any new architecture had to be "genuinely multilateral with adequate representation from countries reflecting changes in economic realities."

Very limited concessions were made to these appeals. The membership of the Financial Stability Forum—a Swiss-based body of finance ministers and central bankers from selected countries—is to be enlarged. But any changes to the IMF and other institutions established as part of the post-World War II Bretton Woods arrangements have been put off to the "medium term".

In part, the involvement of countries such as China and Saudi Arabia was to encourage them to use their large foreign currency reserves to help bolster the IMF funds needed to bail out a growing list of countries. Having committed $100 billion to the IMF, Japanese Prime Minister Taro Aso told the media: "It doesn't have to be Japan alone that would provide such funds. Oil-producing countries, China and other countries that have ample reserves could also make their contributions."

However, China and Saudi Arabia are facing their own economic difficulties, as exports are plummetting. China only recently announced a package of more than half a trillion dollars to stimulate its slowing economy. President Hu remained pointedly silent on any Chinese commitment to the IMF. In Saudi Arabia, official unemployment is now 11 percent. Saudi Finance Minister Ibrahim al-Assaf told Reuters: "There were lots of rumours that we were coming here to pay the bill; there is no such thing."

As for allowing the emerging economies to have a greater say in global financial institutions, Japanese Prime Minister Aso declared: "I don't think it's something that should be achieved today or tomorrow. It needs to be worked out over time." Japan is particularly concerned about the rise of rival China as an economic power in North East Asia and does not want its present advantage in international bodies undermined.

Despite continuing tensions and lack of concrete measures, President Bush declared that it had been a "very productive summit". Japanese Prime Minister Aso also put a brave face on the outcome, declaring: "It does no good to panic in a crisis, and that is proven by the Great Depression of 1929. Today things are entirely different... we have a framework for cooperation."

However, the G-20 leaders are in no hurry to reconvene. The next meeting will be in London in the northern spring, by April 30, 2009, to review the implementation of the decisions agreed on in Washington. By that time, the majority of the world economy will have entered recession—possibly the deepest in the post-war period—and, if the last five months are any guide, a new series of financial problems may well have emerged.