

# G8 leaders fail to reach agreement on global crisis

## China, France, Russia challenge supremacy of US dollar

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The leaders of the G8 group of major industrialized countries lined up for their photo call at the conclusion of this year's summit and sought to put their deliberations in the Italian town of L'Aquila in the best possible light.

US President Barack Obama spoke of a historic consensus on environmental policy and German Chancellor Angela Merkel declared that "considerable progress" had been made at the summit. In fact, most of the decisions announced over the past three days were vague and non-committal. In general, they marked a retreat from positions agreed (and not carried out) at preceding G8 summits.

### Climate change

Attempts at the summit to reach a binding decision on the limitation of greenhouse gases were blocked by developing economies such as India, China and Brazil, which argued that climate targets were being used by developed industrial countries—in particular, the US—to hamper their own economic growth. Representatives from all three countries had been invited to attend the second day of G8 talks in L'Aquila.

An initial proposal put forward at the summit for an 80 percent cut in greenhouse gas emissions by 2050 was buried within hours of being announced. Canada said the goal was "aspirational" and Russia said it could not possibly meet the target.

In the event, the summit agreed to halve greenhouse gas emissions by 2050, but its final resolution was notable for its lack of detail. It remained unclear which reference year would apply for the reduction. If the starting point is later than 1990—the baseline normally used—then the target entails more modest cuts, as most countries saw emissions rise after that date.

The latest agreement also falls well short of the target set by the European Union in March 2007, which called for a 20 percent reduction of CO2 emissions by 2020, in comparison with 1990 levels. Germany had even declared it wanted cuts of as much as 40 percent by 2020.

The G8 leaders also left open the question of how their climate targets were to be financed, with any decision on this issue left until the G20 summit planned for the end of September in Pittsburgh, Pennsylvania.

Commenting on the G8 resolution on climate change, United Nations Secretary General Ban Ki-moon complained that the G8 had missed a "unique opportunity" for progress.

### Farm aid

Much of the talk of success at the end of the summit centred on the decision by G8 leaders to establish a \$20 billion fund spread over three years for farm aid to less developed nations. Initial summit communiqués mentioned a sum of \$15 billion, and summit participants presented the final sum agreed, involving an additional \$5 billion, as a considerable advance aimed at assisting poor nations and continents, in particular, Africa.

The sum of \$20 billion is completely inadequate to alleviate poverty in undeveloped nations. In a report issued a week before the summit, the British charity ActionAid noted that one billion people were going hungry in the world, and declared that decisions at the G8 gathering could "literally make the difference between life and death for millions in the developing world."

The token amount announced in Italy condemns these hundreds of millions of people to worsening hunger and poverty, as the global economic crisis takes a particularly cruel toll on the weakest and most vulnerable economies. Most of Africa and Asia are being starved of capital, which is being monopolized by imperialist powers seeking to bail out their banking systems, even as the export markets of so-called Third World countries shrink.

Moreover, the communiqué on farm aid fails to make clear whether the \$20 billion (of which the US has pledged a paltry \$3.5 billion) represents new money, or is merely to be redistributed from funds long since promised. At its summit in Gleneagles, Scotland in 2005, G8 leaders pledged no less than \$50 billion in aid for underdeveloped countries by the year 2010. According to the Organization for Economic Cooperation and Development (OECD), only one third of this target had been met.

### Financial and economic policy

G8 leaders were also unable to come to any firm agreement on how to combat the financial crisis. Acknowledging the dangers posed by the crisis, the summit issued a statement on Wednesday that declared, "The situation remains uncertain and significant risks remain to economic and financial stability."

However, the G8 is deeply divided on how to respond to the crisis. The US and Britain advocate additional large-scale injections of capital to the banks and big business, while a number of European countries, led by Germany, oppose further stimulus measures, warning of the danger of

ballooning government budget deficits and the threat of inflation. Germany, whose economy is geared to industrial exports, is particularly concerned over the prospect that soaring US deficits will further depress the value of the US dollar in relation to the euro, pricing German exports out of the US and other major markets.

The G8 leaders were unable to arrive at a coordinated policy in response to the crisis. They could do little more than urge individual governments to collaborate with one another as they pursue their own national solutions. The joint declaration acknowledged the lack of consensus, stating that “exit strategies will vary depending on economic conditions and public finances.”

Pro forma, the G8 summit participants unanimously denounced trade protectionism and warned of the dangers of increasing national isolation. In a joint declaration released Thursday, the G8 members and the G5 group of emerging economies—Brazil, China, India, Mexico and South Africa—declared they were “committed” to completing by the end of 2010 the World Trade Organization Doha round of talks aimed at reducing trade barriers and liberalizing economies.

None of these proclamations can be taken seriously. Rather than bringing down trade barriers and other forms of economic protectionism, the universal response by individual nations to the financial crisis has been to step up retaliatory trade, currency and capital measures against other countries.

The US government adopted a “buy American” clause as part of its stimulus program, requiring that only steel and other goods made by domestic producers be used in planned infrastructure projects. The multi-trillion-dollar bank bailout enacted by the Obama administration and resulting record budget deficit have, moreover, resulted in the bulk of available private capital on world financial markets flowing into the US.

The Chinese authorities responded with their own stimulus package, which also contains a “buy national” clause. Other leading nations are taking similar measures.

According to Holger Görg from the Kiel Institute for the World Economy, “If German Chancellor Angela Merkel rescues Opel in the wake of the crisis because it is a German company, that is also protectionism.”

Differences on trade policy broke to the surface at the summit over the issue of energy markets. Alarmed by the recent increase in oil prices, which raises the danger of a prolonged world recession, France and Britain proposed measures to regulate energy markets and reduce the volatility of oil prices. Their proposal was promptly rebuffed by oil exporters Russia and Canada, both of which said it would be impossible to administer markets in such a way.

## Iran

In its joint declaration and under massive pressure from the US delegation, the G8 expressed its “serious concern” over “post-election violence in Iran,” but put off endorsing new sanctions against the country. In his visit to Moscow earlier in the week, President Obama brought considerable pressure to bear on the Russian leadership to take a harder stance against the Iranian government. In L’Aquila, however, the Russian delegation declared that the measures taken against the opposition in Iran were an internal matter.

## Challenges to the US dollar

As is often the case at such summits, the most significant and contentious issues were not part of the official agenda. While the G8 leaders were unable to arrive at viable agreements on economic policy, climate change or world poverty, there was growing evidence of the emergence of a bloc of countries intent on challenging the leading role of the US in economic policy and world affairs.

On Thursday, Chinese State Councilor Dai Bingguo openly criticized the role of the US dollar as the global reserve currency. According to the Chinese foreign ministry, Dai told summit leaders: “We should have a better system for reserve currency issuance and regulation, so that we can maintain relative stability of major reserve currency exchange rates and promote a diversified and rational international reserve currency system.”

Dai did not mention the dollar, but the target of his remarks was clear. China’s has a total investment in US Treasuries of more than \$1 trillion.

Dai’s comments repeat criticisms of the role of the dollar first made by official Chinese sources in March, but his remarks at a high-level meeting of world leaders represents a new stage in the escalation of economic tensions between the US and China.

When asked about Dai’s comments, G8 leaders sought to play down their significance. British Prime Minister Gordon Brown initially said he could not remember Dai making such remarks at a session of the summit he attended along with the US president. When his memory was jogged, Brown said, “We don’t want to give the impression that big change is around the corner and the present arrangements will be destabilized.”

In fact, Dai’s comments had been preceded earlier in the week by a statement from the Kremlin’s top economic adviser, Arkady Dvorkovich, who told the *Wall Street Journal* that the issue of an alternative global reserve currency should be part of the agenda of the G8 meeting.

“We will, alongside China, stress the need to gradually develop a global financial system which will be based on several new strong regional currencies,” Dvorkovich told reporters. “With time,” he added, “those new currencies will then take on a more global character.”

In a significant development, the same theme was also taken up by French President Nicolas Sarkozy, who told a press conference on Thursday that the current system, based since the end of World War II on the supremacy of the US dollar, was outdated and should be replaced.

“Frankly, 60 years later one must ask oneself the question: Shouldn’t a world that is multi-polar... be mirrored by a multi-polar economic system?” Sarkozy said, adding, “Even if it’s a difficult subject, we’ll discuss this in the coming months.”



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