G20 meeting papers over conflicts

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When it was established as the foremost international economic forum in response to the financial crash that began in September 2008, the prospect was held out that the G20 would become the means for overcoming the conflicts and imbalances wracking the global capitalist economy and provide the means for co-ordinating policies and ensuring growth.

While there was broad agreement throughout 2009 on the need for economic stimulus, those hopes have been severely tarnished in recent months amid warnings of an international "currency war" and deepening conflicts among major powers, especially between the United States and China.

So deep are the differences that the future of the organisation itself was being called into question in the lead-up to last weekend's meeting of G20 finance ministers and central bankers held in Gyeoungju, South Korea.

In the event, the meeting, which was held to prepare for the G20 leaders' meeting in Seoul on November 11-12, stepped back from the brink, issuing a communiqué that gave something to everyone while papering over the conflicts—at least for the time being.

Acknowledging that the meeting was being held "with a sense of urgency", the statement said the G20 would "move towards market-determined exchange rate systems that reflect underlying economic fundamentals and refrain from competitive devaluation of currencies."

This was in line with US claims that China is refusing to allow the revaluation of its currency, the yuan (also known as the renminbi), in order to boost exports and build up its currency reserves. China, along with a number of other countries, has insisted the real problem is not the yuan but the low-interest rate regime in the US and the policy of "quantitative easing"—the purchase of Treasury bonds by the US central bank—which is causing a flood of money into the rest of the world and creating asset bubbles in so-called emerging markets.

Accordingly, the communiqué included something to meet those objections.

"Advanced countries," it declared, "including those with reserve currencies [i.e. the United States], will be vigilant against excess volatility and disorderly movements in exchange rates. These actions will help mitigate the risk of excessive volatility in capital flows facing some emerging markets."

In the lead-up to the meeting, US Treasury Secretary Timothy Geithner had issued a letter to participants proposing the G20 members pursue policies to reduce trade surpluses to below a specified share of their gross domestic product. While a specific figure was not mentioned, US officials indicated that it should be set at around 4 percent of GDP.

In a comment posted on the *Financial Times* web site, Gavyn Davies noted that after the various exceptions were taken into account, there was only one country left in the "abnormal surplus" club—China. "So although the US proposal is couched in multilateral language, it appears to be addressed mainly at a familiar bilateral target," he wrote.

China did not comment publicly on the plan but there were objections from Germany and Japan, both of which have large export surpluses. Japan's finance minister Yoshihiko Noda, said numerical targets would be difficult to implement.

German officials said their country's surplus was a sign of competitiveness and not related to currency values. In a pointed barb aimed at the US, German economics minister Rainer Brüderie said: "We should lean toward a market economy and not on a command economy."

In the face of this opposition, the communiqué did not make reference to specific targets. It said the G20 countries would "pursue the full range of policies conducive to reducing excessive imbalances and maintaining current account imbalances at sustainable levels". "Persistently large imbalances" would be assessed against "indicative guidelines to be agreed" and would warrant an "assessment of their nature and root causes" while "recognising the need to take into account national or regional circumstances, including large commodity producers."

As Oh Suk Tae, an economist with SC First National Bank Korea, told Bloomberg: "The terms of the currency policy are so vague and broad that they can be interpreted into different meanings by each country as well as market players."

In other words, far from being over, the currency war may have only been put on hold.

Moreover, the currency conflict itself is only one expression of deeper problems in the global capitalist economy. With economic growth in the major capitalist economies running at about 10 percent below trend level as compared to the beginning of 2008, before the eruption of the financial crisis, there is an increasingly intense battle for global markets.

This is giving rise to fears that the currency battle may just be the precursor to an international trade war.

These concerns were voiced in a major speech by Bank of England governor Mervyn King last Tuesday. King warned that efforts to restore world demand were being impeded by "the scale of imbalances in trade, which are beginning to grow again." Unless there was an agreement on policies among the major powers, conflict would bring "an undesirably low level of world output, with all countries worse off as a result."

The international monetary system had become "distorted" with major surplus and deficit countries pursuing policies that were in direct conflict: "So there is much more to this issue than a bilateral conflict between China and the United States."

King noted that at the G20 meeting in October 2008 there was a "strong determination" to work together but that spirit had "ebbed way."

"The need to act in the collective interest has yet to be recognised, and, unless it is, it will only be a matter of time before one or more countries resort to trade protectionism as the only domestic instrument to support a necessary rebalancing. That could, as it did in the 1930s, lead to a disastrous collapse in activity around the world. Every country would suffer ruinous consequences."

King said that what was needed was a "grand bargain" among the major players in the world economy and that the G20 would be the place for such a bargain.

But he did not appear particularly confident of it taking place. Delivering his speech in the West Midlands Black Country, the birthplace of Britain's industrial revolution, King said that to turn "the regular round of international meetings into a real agreement will require a revolution, different in nature but no less significant, than that which put the Black Country on the map."

However, such a "revolution" to ensure international cooperation is impossible under capitalism because the deepening, and potentially disastrous, conflicts emanate from the profit system and the nation-state system in which it is rooted.

The world economy cannot be unified under capitalism. That is a task which falls to the international socialist revolution.