GlobalResearch
Center for Research on Globalization

G20 summit fails to resolve global trade, currency conflicts

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Global Research, November 14, 2010
World Socialist Web Site 13 October 2010

Region: Asia
Theme: Global Economy

The G20 summit of leading economies held in Seoul, South Korea concluded Friday without any agreement on policies to bridge differences over global currency and trade issues that have grown increasingly bitter in recent weeks.

President Barack Obama failed to obtain a consensus to demand that China allow its currency, the renminbi (also known as the yuan), to appreciate more rapidly. But the US continued to defend its policy of printing hundreds of billions of dollars, dismissing complaints from countries ranging from Germany, Japan and China to Brazil, Thailand and South Africa that Washington is deliberately devaluing the dollar in order to obtain a trade advantage over its competitors.

The US cheap-dollar policy has been compounded by the Federal Reserve's decision last week to launch a second round of "quantitative easing," effectively printing dollars to purchase $600 billion in US Treasury securities. The flood of US dollars is driving up the exchange rates of major exporters such as Germany and Japan as well as of more rapidly growing emerging economies in Latin America, Asia and Africa. The Fed's policy is generating waves of speculative money that are destabilizing the emerging economies, creating asset bubbles and the danger of rapid inflation.

The run-up to the two-day summit, the fifth G20 meeting of heads of government since the financial crash of September 2008, was marked by unusually blunt and public recriminations, with the world's biggest exporters, China and Germany, in particular, accusing the US of currency manipulation and protectionism. For its part, Washington blamed the vast and growing imbalances in the world economy on surplus nations such as China and, by implication, Germany.

To avoid an open breach, which could spark a collapse of financial markets and the eruption of uncontrolled currency and trade war, the warring camps worked into the early hours of Friday morning to craft a communiqué sufficiently vague to paper over the unresolved differences and allow the participants to interpret the various points according to their national interests.

The statement said the leaders had agreed to move toward "more market-determined exchange rate systems, enhancing exchange rate flexibility to reflect underlying economic fundamentals…" That was inserted at the insistence of the United States and directed primarily against China, which regularly intervenes in currency markets to control the rise of its currency relative to the dollar. Beijing, however, insists that it is already moving precisely in the direction indicated in the communiqué.

The leaders also pledged to shun “competitive devaluation of currencies.” This was largely directed against the US and inserted at the insistence of a host of countries opposed to the Fed’s ultra-loose monetary policy. The US delegation had fought unsuccessfully to replace the word “devaluation” with “undervaluation” in order to shift the onus more to the Chinese. In any event, US officials from Obama to Treasury Secretary Timothy Geithner spent much of the two-day meeting solemnly avowing that the US did not now, and never would, pursue a cheap-dollar policy.

The basic US line was that monetary stimulus was needed to revive the US economy, and what was good for America was good for the world.

The G20 statement went on to pledge: “Advanced economies, including those with reserve currencies, will be vigilant against excess volatility and disorderly movements in exchange rates.” This was also directed against the US, which has been widely and justifiably accused of exploiting the privileged role of the dollar as the primary world reserve currency to pursue a unilateralist and nationalist course that is exacerbating global financial instability.

At the behest of emerging markets that have increasingly resorted to capital controls to contain the influx of hot money from abroad, the communiqué sanctioned “carefully designed” control measures.

It repeated the by now ritual call for the Doha round of trade liberalization talks, launched in 2001, to be concluded.

On the most contentious issue—the US proposal for imposing a limit of 4 percent of gross domestic product on nations’ current account imbalances, surpluses as well as deficits—the G20 put off any action. Leading exporting nations such as China, Germany and Japan are adamantly opposed to the US plan, which they fear would be used to force them to cut their exports in favor of those from deficit countries—first and foremost, the United States.

The US advanced this scheme at a meeting of G20 finance ministers in October, but abandoned the attempt to push through a quantitative measurement of imbalances in the face of fierce opposition. The communiqué issued Friday lamely called for G20 finance ministers and central bankers to report next year on “progress” in formulating non-binding “indicative guidelines” on trade and balance-of-payment imbalances.

There are reports that the negotiations over the wording of the communiqué were fractious and heated. “This hasn’t been a love-fest,” said one official who participated in the negotiations. The *Financial Times* quoted a British official as saying, “You can tell how difficult the negotiations were by how bad the language was.”

In another setback for the US and the Obama administration, intense talks to finalize a long-sought free-trade agreement between the United States and South Korea failed to produce a deal. The talks evidently foundered on US demands for concessions from Seoul on trade in autos and beef compared to the terms of a pact worked out in 2007 between South Korea and the Bush administration, but never brought to a vote in Congress.

The failure of the G20 summit heralds an intensification of currency and trade conflicts that threaten to unleash a global trade war. That the opposed camps remained at loggerheads was underscored by the outcome of bilateral meetings held Thursday by Obama with Chinese President Hu Jintao and German Chancellor Angela Merkel.

At his press conference in Seoul on Friday, Obama said that he had “raised yesterday with President Hu of China” that “emerging economies need to allow for currencies that are market-driven.” In a thinly veiled attack, he continued: “All of us need to avoid actions that perpetuate imbalances and give countries an undue advantage over one another.”

In reply to a question, Obama was more bellicose, saying that “the issue of the [renminbi] is one that is an irritant not just to the United States, but is an irritant to a lot of China’s trading partners and those who are competing with China to sell goods around the world. It is undervalued. And China spends enormous amounts of money intervening in the market to keep it undervalued.”

For their part, the Chinese suggested that Washington’s monetary policy was reckless and heedless of its international consequences. Zheng Xiaosong, the director general of the Minister of Finance’s International Department, told a briefing at the summit: “The major reserve currency issuers, while implementing their monetary policies, should not only take into account their national circumstances, but should also bear in mind the possible impacts on the global economy.”

Merkel, in a speech in Seoul, alluded disparagingly to the massive external debts and trade deficits of the US, declaring, “In the task ahead, the benchmark has to be the countries that have been most competitive, not to reduce to the lowest common denominator.”

The summit is another indication that the entire post-World War II system of global economic relations is breaking down. At the center of this crisis is the vast decline in the world economic position of the United States. The US is deliberately seeking to leverage its economic decay—reflected in the huge fall in the value of the dollar and the corresponding rise in the price of gold—to offload its crisis onto the rest of the world.

On the eve of the summit, the president of the World Bank, Robert Zoellick, acknowledged that the current monetary system, based on the preeminence of the dollar, is no longer viable. He proposed a system based on multiple reserve currencies and linked in some way to gold.

French President Nicolas Sarkozy, who will host of the next G20 summit, said Friday: “There was a time when there was one dominant economy, the United States, and one currency, the dollar. We’re facing a new world … and we need a multilateral monetary system.”

Following the summit, the *Bangkok Post* reported that Thai Prime Minister Abhisit Vejjajiva had proposed using the Chinese renminbi as a major trading currency in the Asian-Pacific region to lessen the impact of the weakening of the US dollar.

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