

DEBATES

Mehmet Ali Birand, Journalist and writer, CNN Türk

Let me ask one thing about what Lukyanov said. You are very right; old habits die hard. Even today, there is this insecurity; that is for sure. I am going to ask you about this and maybe the conference participants are going to ask you if you feel insecure. From the Turkish side, when you come up against the decisions of Washington, you do not really feel very secure. The relations are great; we are old allies and everything. There used to be an attitude of: 'you do what you are told.' Europe is silent. Is it a silent partner? There is a big question mark. I quite agree with you.

Stuart Eizenstat, Partner, Convington & Burling

I want to say something that I suspect has not been heard at this conference. It is interesting to hear the word 'insecurity.' We are going to see an election in two weeks that will reflect a different kind of insecurity. The United States is and will be for the foreseeable future, the dominant military force in the world. However, I think it is very important for people to understand the angst, anger and concern of the American people about where we are today. Internally, we have an unemployment rate of 9.5%, a rate that we have not seen since the 1930s. That rate is going to stay high for the next few years. Indeed, even with a decent recovery, which we are nowhere near, it may take five years to get back to the employment levels of 2007, when the great recession came.

The second thing is that the poverty figures came out last week. 44 million Americans are at or below the poverty line. This includes 25% of African Americans, 25% of Hispanic Americans and 12.5% of Asian Americans. One in every five children are on the poverty line. Almost 20% of male workers between 25 and 54 do not have a job. We have not seen long-term unemployment, of more than six months, that we have today, in decades.

In addition, there is a particular sentiment; people are angry and without jobs. This is where it comes back to the global governance issue. At a town-hall meeting, a supporter of the President said, 'Mr President, is the American dream over?' That is the notion that if you work hard and play by the rules, you can have a good middle-class life. That is now thrown into question by a lot of people. This is a very dangerous situation for what is still the dominant power, even a diffused world. It leads to convulsive activities; it can press Governments to take actions that they should not be taking. That to me is a very significant concern.

When we talk about global governance and integration, you look for scapegoats; you look for problems. I wanted people to understand what we mean when we talk about insecurity, that the developed world is somehow insecure. I was Ambassador to the EU as well and I think Europe is ready to give up seats on the IMF. They understand the rules of change and so does the United States, but the American people are in a very difficult psychological and actual state. That can lead to problems for global governance and for the kind of integrated world that we have been successful in building.

Mehmet Ali Birand, Journalist and writer, CNN Türk

I feel happy. There are problems in America as well. So a few questions. We have 20 minutes.

Hervé Mariton, Member of the French Parliament

Concerning the double standard, among the mechanisms of global governance, the WTO basically functions well. And my question is whether after the G20, the panel members believe there is any prospect for other mechanisms which could quickly gain binding power, with the authority to implement and verify its decisions and possibly penalise non-compliance. When you see the emphasis that has been placed on the issue of the double standard when it comes to defining the market economy, as well as defining democracy, it can be a cause for concern about the actual ability to follow mandatory rules if we retain this idea of a double standard – not to mention the generalities about expanding development and the happy road to governance.

I'm going to ask the question to Kemal Dervis. If anyone else would like to add something, please feel free to do so.

Meir Sheetrit, Member of the Israeli Knesset

I am Meir Sheetrit from Israel. My question is for Mr Eizenstat. As a matter of fact, I have two questions. Can the United States, with its connection with China, solve the problem of the monetary war, which is going to be a big dimension on both sides? I believe that if the United States could attempt to get to some kind of agreement about the monetary problems, which influence each other, it could be of very good use to the whole world. They can map it and stay within those lines afterwards. Secondly, after hearing you, I wonder what you think will happen in the election in November in the United States.

Mehmet Ali Birand, Journalist and writer, CNN Türk

That is the 10,000 dollar question; I love that. Let us start with Kemal and we will get to Mr Eizenstat.

Kemal Derviş, Vice President, Global Economy and Development, Brookings Institution

I think it will be very difficult to quickly create another organisation such as the WTO. I believe that we'll head in that direction but it's going to take more time.

The advantage of trade is that it's something very reciprocal. For example, trying to give the International Monetary Fund binding powers – concerning countries' monetary and fiscal policy – will be more difficult because monetary and fiscal policy is considered much more domestic than trade.

In fact, monetary and fiscal policy has a lot of effect on other countries. What the Federal Reserve, European Bank and Bank of China do has an impact on the world economy, but I believe that we're far from accepting binding fiscal rules at global level. We've seen how difficult it is in Europe to adopt binding fiscal rules with the Stability Pact even after years of European cooperation and integration.

So I believe that it's going to take a long time but the process (and I think that Jean-Claude Trichet made the same point yesterday) of exchanging views and of having the Monetary Fund initiate this exchange of opinions and information on countries' macroeconomic monetary and fiscal policy is a rather important first step.

It's not binding but all countries must now report their monetary and fiscal policy and how they envisage the future of their macroeconomic policy. They receive comments and the Monetary Fund initiates this "mutual assessment" process.

I think this is an important point but it falls short of what the WTO is capable of doing, such as sanctions or binding rules for those who don't bend to certain authorised rules. So that's going to take more time.

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Mr Eizenstat, who is going to win? Who is going to win?

Stuart Eizenstat, Partner, Convington & Burling

First, on the currency issue, I think most economists believe that the Chinese currency is undervalued by somewhere between 25% and 40%. There is systematic intervention to keep the currency low. There was an agreement in Pittsburgh, at the G20, which was a tremendously-important agreement. That was to end global imbalances; the surplus countries would stimulate domestic demand and the deficit countries like the United States would save more. That has only been very very imperfectly accomplished.

Regarding the agreement of the Chinese Government in June of this year to appreciate, the Renminbi (RMB), it has only appreciated by 2%. You have got Japan intervening to lower the yen. You have got Brazil and Thailand threatening to put on controls to prevent investment dollars, hot money, coming in. We are at a very dicey stage and the G20 does not have the governing structures. It does not have a permanent secretariat; it relies on Sherpas who come together a couple of times a year. When the leaders come together, they have got this enormous agenda which will be very difficult to resolve. However, we have to avoid a currency war. Between 2005 and 2008, China appreciated its currency by 25%. That is what needs to occur now.

In terms of the elections, everyone will be an expert on 3rd November, but I think the common wisdom is probably accurate. This is that the Republicans will take the House and the Senate will remain Democratic by a very slender majority. That will have very significant implications for the second half of the President's first term. This is another speech.

Kanwal Sibal, Indian Former Foreign Secretary.

With regard to the World Trade Organisation (WTO), yes, there are all these mechanisms. There is the dispute-settlement mechanism, but this only relates to trade. WTO does not cover services in investment. That is a huge, huge area that is being left out of international economic exchanges. The other thing is that the WTO dispute-settlement mechanism is a very lengthy and dilatory process and decisions are not quick.

On occasion, certain decisions are taken. We talked about taking the concerns of the country to the WTO, but in the meantime, trade has been disrupted and time has been wasted. The mechanism is there; it is very important that it has been mentioned, because it is the only area in which there is some enforcement mechanisms. Generally speaking, I would not say that this is performing particularly well.

With regard to the issue of new decisions in the G20 for the enforcement mechanisms of new institutions, I would agree with what has been said by Mr Dervis. Countries are not going to agree easily on a maximalist programme of action. It will essentially be minimalistic; they will continue to maintain a high degree of sovereignty over economic decision-making which is directly related to their own economic welfare.

There will be areas where there is agreement that cooperation and agreement serves the interests of all, but beyond that, I think it will be very, very difficult. Even in the EU, regarding taxation policy, there is not yet agreement. If I am wrong, please correct me. There are certain very sensitive areas on which I do not think countries are going to easily cede their sovereignty in decision-making.



Fu Ying, Chinese Foreign Vice-Minister

I need to respond a bit to some of the questions. First of all, regarding the basis for market economies, I totally agree with the word 'double standard.' From our point of view, it is very political. If you talk about governmental intervention, during the financial crisis, we have all seen lots of Governments intervening very heavily in the economy. As far as China is concerned, the reform is moving the Government further and further away from their economic activities.

The State enterprises in China are a legacy of the past. It was very wise for China not to let the state-owned enterprises go into anybody's hands. It is one of the successes of China's reforms. All the state-owned enterprises in China have to operate according to the market rules. If you use the same standard for the countries which the EU and the US recognise as market economies, you find that they are no more market-oriented than the Chinese economy. Interestingly, if the EU used the five standards they require from China to measure their own members, some of the members would not pass.

I am not saying that China is going to survive without the market-economy status; we are growing into an important part of the global economy and the global market. What I am saying is that this is a double standard. Speaking of the currency war, I agree with you that we do not want to engage in a currency war.

I also appreciate what Stuart said about the feeling of the Americans, but I am quite sure that Americans have been in difficulties many times in their history and they have always come out of them. There is this spirit of fighting back. In China, the popular view is that this is a matter of temporary difficulties. What we are concerned about is that some Americans will try to seek solutions outside of the United States, from other sources. The economies all agree that the appreciation of the Yuan will not help in creating jobs in the US. Most of the products we sell to the US are not made in the US any more. Either you will have to buy them from other countries, or buy it more expensively from China; that will add to the costs of your consumers. Taking the currency, the Yuan, as the main scapegoat, is not going to help you.

Regarding China, you mentioned the appreciation of the RMB by 25%, but if you look back at the trade relationship during that period of time, our surplus trade with the US was growing. However, when we stopped in 2009, when we suspended the reform of the currency, our trade surplus came down, because of the financial difficulties. You can see that there is no linkage with the trend for surplus in our trade. We appreciate that Obama was having discussions with the Chinese President. He said he was going to rethink and revisit the restrictions in the United States regarding exporting high-tech products to China. This would help balance the trade more easily, thus forcing the appreciation of the RMB.

Stuart Eizenstat, Partner, Convington & Burling

I would like to make a brief rebuttal. There are two issues here; one is the actual economic impact, the second is the question that we have been dealing with here. It involves emerging countries, as they rise by status, playing by global rules. In terms of the actual economic impact, the Peterson Institute, which I think is the best international economic institute in the world, recently did a study. This showed very significant increases in economic activity in the United States. There was a narrowing of our very, very large trade deficit with China, if the RMB were to appreciate by the same amount that it did between 2005 and 2008.

Secondly, there is the perception. That is the notion that one country actively tries to peg its currency to the dollar in ways that favour its exports. That is not what we agreed to and what China agreed to at Pittsburgh in the G20. It was to end those kinds of global imbalances. What happened is, because of that artificial effort to keep the currency down and to favour exports, the Japanese, the South Koreans and others are saying, 'We have to do the same thing.' That is what is dangerous; it sets off a cycle that really needs to be avoided. I think Seoul and the G20 is a very important point. It is not just the US and China with regard to currency; Brazil, India and other countries are saying that this is hurting our competitiveness as well. We have to have a level playing field.

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Thank you. That is the end of this discussion. Thank you, Thierry, for a great conference and thanks to all your people; they were great. Thank you very much.