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ECONOMIC VIEWPOINT

## Why the Group of Eight Needs to Meet Right Now

We cannot know how deep the divisions between the U.S. and some of its allies will have become by the time the Iraq war is over. It is possible that a relatively quick American victory will result in a kiss-and-make-up scenario in which France, Germany, Russia, and China move rapidly to join the new postwar arrangements. More likely, in my view, is that no matter how the military conflict ends, intra-ally tensions go well beyond a dispute over Iraq.

They will reflect, instead, deep-seated foreign resentment about what many feel is arrogant, unilateral U.S. behavior in the world. Such divisions could easily affect international cooperation in trade and finance, dealing a body blow to economic growth everywhere. Surely there is a compelling case to try to prevent this from happening. President Bush should therefore urge his counterparts in the Group of Eight (the G-7 plus Russia) to ask their finance ministers and central bank governors to get together to look past the war.

This meeting should differ significantly from past gatherings of this same crowd, in which nothing has generally been accomplished. The disaster in the U.N. Security Council, together with the war in Iraq, have brought us to a defining moment in the future of multilateral cooperation, and the G-8 ministers should be given a mandate from their bosses to demonstrate that much more holds the West and Japan together than divides it.

The best timing for a meeting of ministers and central bank governors is obviously a delicate issue. There is not only a war under way -- more difficult than originally envisioned in Washington -- but also strong currents of resentment between Washington and Paris, Berlin, and Moscow. Despite these facts, it still makes sense to convene a meeting very soon, before political rifts widen. In fact, the annual heads-of-state G-8 summit, which is scheduled for mid-June, should be advanced to late April. During World War II, when U.S. security was challenged by aggressors far more powerful than Saddam Hussein, President Franklin D. Roosevelt still found time to commission work on the imperatives of the postwar global economic system. President George W. Bush should follow FDR's example.

Agreement among the G-8 on four sets of issues would be a critical achievement. The first would be an affirmation that now is the time to deepen economic collaboration among key nations. This isn't a rhetorical gesture: The global framework of trade and finance has relied on shared perceptions that the world economy should be organized according to a U.S.-style capitalism and led by Uncle Sam. This view can no longer be taken for granted against the backdrop of such widespread international resentment of U.S. foreign policy and the chance that such acrimony will persist beyond Iraq.

Second, the Group needs a contingency plan if either the war or its aftermath takes a bad turn and markets are spooked, or if there is a terrorist attack that maims the global financial network. It must agree on a collective response if oil supplies are disrupted. It should make a pact to avoid unseemly commercial rivalries over Iraqi oil contracts. It needs a coordinated strategy for rebuilding the war-torn nation, including an agreement on how to involve the U.N. Plans should also be made for a peace and reconstruction conference to be held somewhere in the Middle East, one that would include business leaders from around the world.

The third critical G-8 accord would focus on preventing another global recession. Excess capacity, anemic corporate investment, declining consumer confidence, and sagging stock markets have to be addressed, geopolitical tensions notwithstanding. Economic policies in the key countries are all heading in the wrong direction, and all global forecasts are being revised downward. Washington's short-term stimulus package is inadequate and in any event will be undercut by fiscal austerity in the states. The Japanese economy is again heading south. Germany is facing a banking crisis and perhaps recession. The G-8 needs a coordinated growth strategy.

The G-8's fourth immediate mission: Devise urgent measures to avoid a breakdown in the Doha round of global trade negotiations. Momentum for agricultural liberalization is stalled. Huge trade disputes between the U.S. and the EU -- over Europe's refusal to import genetically modified food and American tax subsidies for its exporters -- could set back global trade cooperation for years. The U.S. and Europe have to make major efforts to open their markets much more to textile and food exports from developing countries to give them a bigger stake in a global economy and to reduce their poverty.

Can a war in a country whose gross domestic product is less than that of most American states rip the fabric of global economic cooperation? Looking at what has happened to NATO and the U.N. in the months leading up to the Iraq war, no one should discount the possibility. Multilateral economic diplomacy has never been more important.

By Jeffrey E. Garten