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A Big Success for the G20

Global summits raise expectations of finding global solutions. As a rule, though, that usually doesn't happen.

But last week's meeting of the Group of 20 in London ended successfully for a change. The most important result was not the $1 trillion the International Monetary Fund allocated to help fight the crisis, most of which will help developing countries that have been hit hard by fluctuations in the exchange rates of their national currencies.

Most significant, the meeting demonstrated that the world remains united. Government leaders, although primarily concerned about their own economies, realize the danger of adopting protectionist measures as a knee-jerk reaction to the crisis. For us, the most important result is that Russia reaffirmed its role as a part of the larger world order.

Meanwhile, there was no shortage of disagreements at the summit. European leaders, especially from France and Germany, offered resistance to the U.S. plan to stimulate demand through government spending, but their opposition did not stem from geopolitical considerations. In European countries, where the labor market enjoys more protection than in the United States, consumption does not fall as steeply when gross domestic product falls, and the need to stimulate demand is therefore lower. The lack of flexibility in the European labor market might also play a negative role because it slows the ability of European countries to make the transition toward growth.

But for now, the United States is feeling the effects of the crisis more than Europe is. One reason for this: European governments have not yet fully realized the scale of the problem with toxic assets on the balance sheets of European banks. Stefan Ingves, governor of the Swedish Central Bank who co-authored the "Swedish solution" to the country's banking problems in 1992, said last week at a seminar at the New Economic School in Moscow, "It is possible to postpone finding a solution to the problem of bad assets, but it will not resolve by itself."

It is no easy task to present a serious initiative at a global forum, and President Dmitry Medvedev was unable to do this. His talk of the need to switch to a new reserve currency is popular among average Russians, but it has little practical meaning at the government level. What prevents Russia from holding reserves in different currencies? The same thing that prevents any individual from doing so: The dollar remains the most secure reserve currency, and it is unclear what could replace it in the near future.

The situation in China looks even worse. After 10 years of accumulating dollar reserves, it turned out that the very size of those assets (almost $2 trillion) has become a major headache for Chinese leaders. If they sell those dollars, the price of China's exports will increase as the dollar drops relative to the yuan. This would render their own savings worthless.

For Russia, the need to maintain its active participation in the global economy is actually more of a domestic priority than a foreign policy goal. It is easy to oppose protectionist measures when your trading partners take the same position. Russia needs to keep its markets open even if other governments buckle under the pressure of their lobbyists and start protecting their markets.

Even if Medvedev's promise to adhere to principles of free trade were just empty words, hard times are coming, and his resolve to stand by those words would make a significant contribution to the global struggle.

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