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G7 may be weary, but where it leads, emerging powers will likely follow

By Kevin Carmichael
From Saturday's Globe and Mail

In Iqaluit, the exclusive club of ministers has a chance to show that it's not frozen in time

Finance Minister Jim Flaherty's choice of Iqaluit to play host to a meeting of his counterparts from the Group of Seven nations is meant to signify a radical break from the stodgy club that failed to prevent an economic calamity.

Unfortunately, the snowy tundra that surrounds Canada's northernmost capital also works as a metaphor for a group of countries that appear frozen in time.

Mr. Flaherty, known for his stubbornness, went ahead with this meeting against a serious headwind of doubt and cynicism.

The G7 - the United States, Japan, Germany, Britain, France, Italy and Canada - represents the countries that used to run the world economy.

Today, with their high unemployment rates, bloated government debts and publicly subsidized banks, the G7 and many of their peers in western Europe are the countries that are holding the world economy back.

The Standard & Poor's 500 index in New York had surged 70 per cent from a 12-year low in March as emerging powers such as China and Brazil marched out of the global recession like nothing happened, evidence the world economy has a new engine.

The G7 accepted the new world order last year when it ceded responsibility for steering the world economy to the larger Group of 20 nations at a summit in Pittsburgh in September. It was the commitment of countries such as China, India and Russia to join in pumping hundreds of billions of dollars into the global economy that reversed the financial crisis.

The rise of the G20 has people questioning the relevance of the more-exclusive G7. European officials gather on a regular basis, and a group of Pacific Rim nations is taking on greater importance as a result of the strength of emerging Asian economies. Finance ministers and central bankers already attend agenda-setting meetings of the International Monetary Fund and World Bank twice a year.

"I would be very surprised if the G7 finance ministers meeting continues," John Manley, the president of the Canadian Council of Chief Executives and a former Canadian finance minister, said in an interview earlier this week. "It's just very hard to maintain your domestic priorities when you are globetrotting to these meetings, because ministers really have to go."

There is an element of national self-interest in Mr. Flaherty's insistence on holding a G7 meeting - as there is with Prime Minister Stephen Harper's desire to maintain a summit of leaders from the G7 and Russia in June. Some believe Canada, which inherited the presidency of the G7 and the G8 this year from Italy, will have more influence in a smaller group, although it's not clear Canada has much influence over the U.S., Japan, Germany, Britain and France.

Like a corporate bonding retreat, Mr. Flaherty wants the summit to cement a dialogue and build trust between seven generally like-minded countries that still represent two-thirds of the global economy, play host to the biggest financial markets and issue the currencies that make up the majority of the world's foreign-exchange reserves. The G7 countries are the biggest donors to the IMF, World Bank and other institutions that seek to alleviate poverty.

That's a tremendous amount of leverage over some of the biggest issues that plague the world financial system and the global economy.

For example, the failure of regulators and regulation in Washington, London, Paris and Berlin played a significant role in the collapse of the financial system in 2008. Divergent approaches to curbing the excesses of banks in the U.S., Britain and France are causing uncertainty that is contributing to current turmoil in financial markets.

While the G20 is the body that is directing the effort to create a universal regulatory regime, no system will work unless the bankers and traders on Wall Street and in London, Frankfurt and Tokyo are brought to heel. The G7 finance ministers and central-bank governors could calm some of that anxiety if they manage to persuade international investors this weekend that they are committed to working together as they overhaul financial regulation.

"The G7 is an anachronism, but one that may still have its uses," said Eswar Prasad, a senior fellow at the Brookings Institution in Washington and former head of the financial studies and China divisions of the IMF. "On a few international economic policy issues, agreement among the G7 could be very effective in bringing the rest of the G20 around."

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