

When failure is assured

BY BUNN NAGARA

ANOTHER G7 Summit has come and gone, with the only certainty being next year's Summit amid more daunting challenges.

Leaders of the United States, Canada, Britain, France, Germany, Italy and Japan plus the EU gathered for two days during the week in the Japanese coastal resort of Shima to ponder on the world's problems.

These mostly Western countries have come a long way in trying to tackle global challenges with declining capacity. The modalities of this year's gathering were predictable, its tenor pessimistic.

The chief issues raised were terrorism, refugees and not least, declining growth. These are problems of the world which G7 countries have taken upon themselves to address.

The result has been a loosening grip on these already intractable problems. Typically, no common workable solutions were offered by the end of the Summit.

Terrorism has long been a scourge throughout the world. With neither "terrorism" nor its root causes identified, acknowledged and defined, it will long remain a scourge.

Much of that applies to mass refugee flows. To the West, which the G7 implicitly represents, the problem is how to handle, reduce or stop these influxes.

To the source countries of refugees however, the problem is a home nation made uninhabitable through devastation and war.

According to the UN High Commissioner for Refugees, the three main source countries are Syria, Afghanistan and Iraq. These are countries that the West has bombed, attacked and invaded in recent years.

An obvious solution for the future would be to end Western militarist ventures abroad. But there was no indication the Summit acknowledged this any more than it could identify a solution for declining growth.

The most that it could achieve this year was to produce a declaration thick with phrases like the need for "inclusive growth" that is "sustainable" because of "weak demand" and "structural problems".

There was also the customary denunciation of protectionism and all trade barriers. The International Monetary Fund, a key G7 participant, staunchly displayed its Bretton Woods DNA in the face of multiple global challenges.

As host, Prime Minister Shinzo Abe was keen to impress and to leave an imprint, perhaps even to establish a legacy.

So he tried to sell his "Abenomics" formula as a solution to the world's economic problems. This comprised a fiscal stimulus, monetary easing and structural reforms.

Unfortunately for Abe, by the first quarter of 2016 Abenomics was discredited widely as a failure in Japan and abroad. Among other things, it began by ignoring Japan's debt problem and then enlarged it.

Abe tried to spook his guests into believing that the beginnings of another 2008 crisis were already at hand. But they should know a thing or two about that crisis since they started it, and said current problems were only its tail end – albeit almost a full decade later.

At the Summit Abe could not even get his first stage, fiscal stimulus, to be accepted by his G7 guests. They politely countered that each country would have to find its own solution.

Britain, Germany and the IMF in particular were dead set against a fiscal stimulus or monetary easing, let alone both. Any structural reforms deemed necessary would then be very different from those of Abenomics.

The final joint declaration agreed only to depressed growth being a problem, not to a solution for it. This did not stop Abe from claiming in his closing address that the G7 had agreed to apply Abenomics for the world.

Another issue the G7 tried to grapple with was the global steel glut with the focal point on China. But China, which produces half the world's steel, was not mentioned.

China had already cut production by 90 million tonnes, with plans to cut up to another 150 million tonnes in the coming years. But its industrial momentum is such that, as Japan acknowledged, it is a challenge simply to slam on the brakes.

One result has been the United States slapping a 522% tax on Chinese steel for property construction and automotive manufacture, while still complaining of protectionism and trade barriers. US steel producers blame Chinese state subsidies and China blames unfair Western practices. The rest of the world sees an unrepresentative G7 posing as the world's saviour.

This year's Summit also expressed concern over developments in the South China Sea without mentioning China, but still incurred Beijing's displeasure. That could conceivably have been avoided if China was a member.

The G7 began in 1974 as an informal meeting of finance officials from the United States, Britain, France, West Germany and Japan in Washington. They were supposed to be the economic movers and shakers of the world.

Then this Group of Five in 1975 grew into the G6 with the inclusion of Italy, with meetings of the finance ministers and central bank governors of the five Western countries and Japan.

Later Canada and then Russia joined to make it the G8. It became the G7 again after Russia was excluded, following strategic differences with the West over Ukraine.

Today the G7 plus EU remains very much a Western entity, comprising six Western countries and Japan, a US ally. More than half the members are already in the EU, with effective EU representation again amounting to additional Western membership.

The G7 still holds itself up as the arbiters of global economics, but how credible is this claim today?

The world's highest scorers in (nominal) GDP per capita are Luxembourg, Switzerland and Qatar, and in PPP (purchasing power parity) terms are Qatar, Luxembourg and Singapore.

Granted, these countries may lack the global heft of major powers, but what are the economic standings of the G7 countries themselves today?

In nominal GDP per capita, the United States, Britain, Canada, France, Germany, Italy and Japan come in 5th, 13th, 16th, 22nd, 20th, 27th and 25th places respectively.

In PPP terms of GDP per capita, they are 11th, 21st, 27th, 25th, 20th, 32nd and 29th.

Several private Western sources list the world's 10 most influential national economies (alphabetically) as Brazil, Britain, Canada, China, France, Germany, India, Italy, Russia and the United States, albeit in different orders.

Britain's *Telegraph* newspaper group, which adjusts influence based on certain criteria, lists Indonesia in place of Italy.

Russia is now excluded from the G7 because of political differences, while China and India are excluded because they are still developing countries. But these distinctions are ultimately subjective.

What matters more, particularly for the G7's own credibility, is how relevant its membership still is for the issues it seeks to tackle. The lack of "fit" has only produced a common frustration.

It is a frustration seen on both sides of the "Brexit" issue. A lack of fit has made one side want to pull Britain out of Europe, while the other sees a solution in redefining its presence there.

It is also a frustration seen in last year's G7 Summit protests despite its remote location in the Bavarian mountains. Protesters saw a lack of fit between the G7 and real world problems.

In the United States, a sense of frustration from a lack of fit in current institutions and practices has led to the Trump and Sanders candidacies in the presidential election. Adjustments or upheavals then naturally result.

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