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"Seoul" Search: Self before Global Interest?

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"America and England are two nations divided by a common language."

That was a humorous quotation, once dubiously attributed to Sir Winston Churchill.

In fact, it was Oscar Wilde who wrote in 1987: "We have really everything in common with America nowadays except, of course, language."

Anyway, recent events have shown that both America and England continue to have many things in common, including the new, desperate search of external markets to compensate their inadequate, falling domestic demand to maintain and create jobs at home.

As US President Obama with a big team of officials and 200 American CEOs, completed his four-day visit to India on November 9, British Prime Minster Cameron flew into Beijing with four cabinet ministers and 43 business leaders for his own wheeling and dealing.

Obama's India Trip

Weakened by the US midterm election results, which led to loss of majority for his party in the House of Representatives and to a reduced majority in the Senate, amounting to a rejection of his policies to fight recession, Obama made it clear that the purpose of his India visit was to create jobs in USA. That did not go down well initially, with the Indian political parties, as they recalled his campaign rhetoric against outsourcing of skills from India.

His first day in Mumbai was to his liking. He obtained a fresh order for $10 billion in new trade deals, which are expected to create 54,000 jobs back in USA. Deals include transactions involving General Electric for aircraft engines and gas turbines, and Boeing for 737 passenger planes and a $4.5 billion sale by C-17 military transport planes. It was also indicated that there would be measures to ease export controls, imposed after India's nuclear test in 1998.

India-US had trade of $36.6 billion in 2009-10. The objective is to double US exports to India over the next 5 years.

As the visit proceeded in the next two days, Obama began to say “right things at right places.” That endeared him to his audience. College students cornered him with questions on his position on terrorism and the origin of terror attacks on India. They got the replies they wanted. In his address to the Indian Parliament he extended support for India’s permanent membership in UN Security Council, which of course drew prompt disapproval from the expected quarters, including Japan and Germany.

Cameron’s China trip

As Prime Minister Cameron arrived in China, news of China's trade surplus in October greeted him. October exports rose to $136 billion, while imports were $109 billion, resulting in trade surplus of $27 billion, just behind the year's high of $28.7 billion in July.

British goods currently accounted for only 2% of China's imports. Cameron is keen to raise it to 10% soon. His first stop was the British owned Tesco supermarket which has 99 outlets and is planning a £2bn investment over the next five years.

An agreement was also signed for promoting export of British breeding pigs to China. The deal is valued at about £45m to the British pig industry over the next five years. To pork was also added some booze: the deal was reached to ensure only whisky produced in Scotland would be marketed in China as Scotch, which will increase sales by tens of millions of pounds.

Further, the British engine maker Rolls-Royce obtained a $1.2 billion contract for supplying a Chinese airline with Trent 700 engines for 16 Airbus A330 aircraft together with a long-term servicing contract.

There were pressures from home: Only trade? How about this year’s Nobel Peace Prize winner, now imprisoned in China for next 11 years?

Pressure from home made Cameron to speak out at Peking University. That was the occasion to say “wrong things at wrong places.”

He spoke on the need for China assuming greater international and domestic responsibility commensurate with rise in economic prosperity. He did not mention the Nobel Prize winner. But certainly his speech referred to human rights.

Peking students, closely supervised by the military, were very different from the ones Obama met in Mumbai’s St. Xavier’s college.

One student stunned Cameron with his question: “Why do you, the leaders from the West, often come to China for lecturing on human rights?”

On to Seoul

The leaders of 20 countries (G 20) are now in Seoul to save the world from the economic crisis. Each would be looking for one's own survival first, before extending a hand to the drowning person. The competitive devaluation for promoting exports has been widely condemned: first from those, not surprisingly, who have enough trade surpluses: China and Germany. They were just joined the other day by Latin American countries led by Brazil.

They fear that the US Federal Reserve (the Fed)'s addition to money supply of another $600 billion by buying long term bonds in the next six months would make the return on US dollar denominated assets unattractive and dollar funds would flow to emerging countries. In the process, their currencies will appreciate, hurting their exports.

The Indian Prime Minister assured the US President last Tuesday at the joint Press Conference that he has no objection to the US Fed's quantitative easing.

"A strong, robust, fast-growing United States is in the interests of the world," said Prime Minister Singh. "And therefore, anything that would stimulate the underlying growth and policies of entrepreneurship in the United States would help the cause of global prosperity."

That must have been music to Obama, as he has been hearing discordant notes from Europe, Latin America and Japan.

Prime Minister Singh, a trained economist welcomed the inflow of both hot money and long term dollar funds flowing into India in search of higher return. India wants capital inflows. Appreciation of Indian rupee would not matter, as Indian growth was not export-led any way in the past and it has all along been domestic demand led growth. In fact, any currency appreciation would make imports cheaper!

More suggestions, more confusion

In a more desperate move, ten days ago, US Treasury Secretary Timothy Geithner went to the extent of suggesting targets of current account surpluses at not more than 4%, knowing well that China's trade surplus is 5% of GDP. His earlier suggestion of up valuing the Chinese currency had already fallen on deaf ears!

Geithner has now withdrawn the suggestion of capping current account surpluses.

Not satisfied with the prevailing confusion, World Bank President Zoellick has made his own contribution: bring back the gold standard!

Of course, not in the same old way.

He does not advocate rigidly fixing the value of currencies against the price of gold. He wants a future system of flexible exchange rates should reference gold, instead of the US dollar, as a common point of valuation. If Zoellick's suggestion is adopted, trade surplus countries including China would not rely on US dollars alone, but buy gold and other currencies to build up their reserves.

In the midst of all the confusing signals, what will the G 20-leaders achieve?

That remains to be seen.

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