# Diplomacy in Action on the Highest Level in Order to Combat the Effects of Global Financial Crisis

*Dumitru MAZILU*

**Abstract :** *The world financial crisis has serious consequences in all sectors of economy. Many factories have been closed and unemployment has reached the highest level of the last decades. The leaders of the industrialized countries and emergent economies – during important international meetings- have tried to find adequate solutions in order to minimize the effects of the financial crisis. We can say that at national and international levels there have been drawn certain options and we shall refer to them in the present study.*
**Key words:** *financial crisis, emergent economies, fighting financial crisis effects*
***JEL Classification:** A13*

**Résumé:** *La crise financière mondiale a de sérieuses conséquences dans tous les secteurs de l'économie. Beaucoup d'entreprises ont été fermées et le chômage a atteint le plus haut niveau au cours des dernières décennies*[1]*. Les dirigeants des pays industrialisés et des économies émergentes - au cours des importants débats internationaux*[2]*- ont essayé de trouver des solutions appropriées pour limiter les effets de cette crise financière*[3]*. Nous pouvons affirmer qu'au niveau national et international certaines options ont été présentées*[4] *et dans cette étude nous allons nous rapporter à ce qui a été dit ci-dessus*[5]*.*
**Mots clefs:** *crise financière, économies émergentes, le combat des effets de la crise financière*

**Abstract:** *Die internationale Finanzkrise hat schwere Folgen für alle Sektoren der Wirtschaft. Viele Unternehmen wurden geschlossen, die Arbeitslosigkeit hat das höchste Niveau aus den letzten Jahrzehnten erreicht. Die Leaders der industrialisierten Länder und der emergenten Wirtschaften haben im Rahmen wichtiger internationaler Debatten versucht, adäquate Lösungen zur Beschränkung dieser finanziellen Krise zu finden. Man kann sagen, dass auf nationaler und internationaler Ebene einige Wege, auf die wir in der Studie eingehen, konturiert wurden.*

**Schlüsselwörter**: *Finanzkrise, emergente Wirtschaft, Bekämpfung der Effekte der finanziellen Krise*

The global financial crisis has serious consequences on all sectors of the economy. Many enterprises had to close the door and unemployment gets the highest level in last decades[1]. The leaders of the industrialized countries and emerging economies – during the important international debates[2] – are trying to find out the appropriate solutions to limit the effects of this financial crisis[3]. We can say that at national and international level some options are now on the way[4] and in this study we are referring to them[5].

As it is known, in the second half of 2007 and the first ten months of 2008, the financial crisis has been felt more in some countries, especially in the United States; since October 2008 the financial crisis has become global in nature. The efforts to combat the crisis have involved national, European and universal institutions, and an analysis of the role of these institutions is of uttermost necessity.

In November 2008 José Manuel Durão Barroso, President of the European Commission compelled attention that *exceptional times require exceptional measures*, because *the employment and welfare of our citizens are at stake*[6], and Nicolas Sarkozy, President of France who was also the President of the European Union at that time, stated that *we* *cannot continue to lead the economy of the 21st century with the instruments of the economy of the 20th*[7]. President Sarkozy emphasised that the EU has an important role to play in the efforts to combat the global financial crisis. *We are confident* – he pointed out – *that working together we will overcome the current challenges and we will restore the stability and prosperity of our economies*[8]. Outstanding personalities and knowledgeable researchers have carried out analyses relating to the ways and methods to combat the current crisis[9].

Triggering global financial crisis is the subject of diplomatic negotiations at the regional level but also globally and the most appropriate measures to limit its negative effects, but – especially – the causes that triggered it are being searched for. It is obvious that the most sustained diplomatic activity to combat the consequences of the global financial crisis is held by the European Union, on the one hand, and some groups of states sharing common interests, but also having the capacity to impose a certain way in the financial relations at national, regional and global, on the other hand. It was found that – of those groups of countries – G20, established in 1999, took the initiative of diplomatic negotiations dedicated to urgent and effective strategies. However, G20 has been preceded by consultations and negotiations at European level.

## § 1. Contribution of the French Presidency of the EU – recognized and appreciated

Given that crisis – manifested in various forms (especially as a mortgage in the United States) over the past year and a half – came out after the Lehman Brothers Bank crash, with *"almost unimaginable consequences*[10]*"*, the French Presidency European Union took the initiative of negotiating and adopting urgent measures to stop the consequences of the crisis at the European level and worldwide. The personality who has shown "clairvoyance and realism" in these "troubled times" was the French President, Nicolas Sarkozy, who was also President of the European Union. His message – not only to the Member States, but also for other States as well, was firm and consistent: "I want that on this matter (the financial crisis – note ns.), we, Europeans, to be entirely united."[11] Sarkozy said that "this crisis marks the beginning of the <genuine Exist century>"[12]. First, the French Presidency organized consultations with some countries, including Germany, Great Britain, Italy, Spain and with the President of the European Commission José Manuel Durão Barroso, then, on Friday, November 7, 2008, convened the leaders of the 27 member states with a view to set up a *concert program of measures*, assumed by the European Union, and then promoted worldwide.[13] Among the measures negotiated by the EU French Presidency the most important ones focus on: a. the involvement of national institutions; b. the involvement of European institutions, c. the universal involvement of institutions in combating the effects of global financial crisis. Although the views of European leaders regarding the *means to combat the crisis* were different a consensus on the imperative necessity that these means should be applied both at national and European level and worldwide came into shape.[14] Nicolas Sarkozy negotiated with Angela Merkel, German Chancellor, with Gordon Brown, Prime Minister of Great Britain, and discussed the measures with the President of the European Commission, José Manuel Durão Barroso. The French President considered *"urgent and necessary"* to organize an international summit to discuss *"practical ways"* to combat the global financial crisis. On November 15, 2008 the works of the "Group 20", were held in Washington, where several immediate measures to limit these effects and to eliminate the causes of the crisis were outlined.

## § 2. G20 - a group composed of industrialized and emerging countries

Established as a "**consultative Forum on international financial issues between the largest and most influential economies in the world**", <Group 20> was founded in 1999 and included South Africa, Saudi Arabia, Argentina, Australia, Brazil, Canada, China, South Korea, France, Germany, India, Indonesia, Italy, Japan, Britain, Mexico, Russian Federation, United States, Turkey and the European Union – entitled to express its point of view by its President in exercise based on the principle of rotation. "Group 20" comprises two thirds of the world's population, represents 85%-90% of Global Gross Domestic Product and provides 80 percent of world trade. Before the triggering of the global financial crisis, "Group 20" held a meeting at the level of ministers of finance or heads of the (Governing) central banks. The Summit in Washington on November 15, 2008, was organized for the first time at the level of the heads of the G20 member states. The explanation of the call at this level lies in the exceptional importance of the issues addressed.

## § 3. Solutions Proposed at G20 Summit in Washington

For the preparation of the Summit in Washington on the days of 8-9 of November 2008, in Sao Paolo – Brazil's "financial capital" – a meeting of the finance ministers and the heads of the G20 central banks was held. They suggested the adoption of measures on the issue of charged fees: to increase the role of national institutions to combat financial crisis; to reform the international financial system, through "*Breton Woods II.*" Major emerging economies, especially Brazil, Russia, India and China, came to the Summit prepared to obtain "*participation*" in international decision-making system "*according to their position in the global economy*". It is known that – in recent years – China has been involved in African economies, *developing a new type of cooperation with African countries, based not only on the exploitation of their resources but also <on an effective support for the economic development of these states>*; Brazil has involved more in the economy of Latin American countries and India has expanded its economic relations with the Russian Federation. The European Union has brought to the Summit in Washington *"a strong message of profound reform of the international financial system"* by taking measures to oversee it. Russian Federation has expressed public support for the European Union position on reforming the international financial system – through the statement of her President, Dmitri Medvedev.[15]

## § 4. Confrontation and Cooperation at the Summit in Washington

On November 15, 2008 – in Washington – several points of view were confronted, especially between the European Agenda, supported by Nicolas Sarkozy and the American Agenda, supported by President George W. Bush. If the European Union called for an effective involvement of national institutions, European and universal "in combating and preventing the global financial crisis", *President Bush stated that "the United States does not want a too severe framing of their financial industry, whose contribution to Gross Domestic Product of U.S. is 10 percent"*[16]. U.S. President refused the idea that the United States would bear the entire responsibility for the international financial crisis, but it was agreed for the G20 leaders *"to lay the ground for reforms to prevent repetition of such crises in future"*.[17] President Bush claimed that *"this crisis is not a failure of the free market economy, and the answer is not to reinvent the system"*[18]. However, the

European Union, the Russian Federation, Brazil and China have decided to *"change the architecture of international finance"* through *"effective measures of regulation and supervision"*. After a preparatory meeting of the finance ministers and heads of G20 central banks – which took place in Sao Paolo between November 8-9, 2008 – and after high level negotiations in Washington on November 15, 2008, some very important decisions have been adopted:

**a.** effective support for the economic through re-launching policies **b.** adoption of international standards to give an appropriate regulation of the financial system, **c.** performing a reform of international institutions in order to prevent similar crises in the future. The negotiations during the Summit have highlighted that *"negotiations of the details is difficult"* and that *"they should be continued until the next meeting to be held on 30 April 2009"*, when they reach 101 days in the U.S. Administration by Barrack Obama. Preoccupation to find appropriate solutions to combat global financial crisis concerns not only national and regional institutions but also the existing universal ones.

## § 5. National institutions - an important role in combating the financial crisis

Beyond the divergent points of view – which did not miss during the G20 Summit in Washington, held on November 15, 2008 – a consensus on the involvement of national, regional and universal institutions in the complex process of combating the effects of world financial crisis came into shape. Consensus on this option was outlined just before the Summit, by the measures adopted by the United States and the positions agreed – through negotiations – by the EU leaders, at the request of the President in exercise of the Union, Nicolas Sarkozy. It is known that – after the first negative vote of the House of Representatives for the "*Paulson Plan*" to support the banking system by 700 billion U.S. dollars, following the Lechman Brothers crash – following the positive vote of the Senate, the House of Representatives voted in favor, with 263 votes more than needed for the grant amount. After negotiations with Germany, Britain, Italy and Spain, the French Presidency has promoted the involvement of national institutions for *"supporting the banking system."*[19] The French President has managed to promote the view that *"in these troubled times, returning to the State, is a solution, even on a temporary basis."*[20] Gordon Brown, Prime Minister of Great Britain, has initiated an action to *"support the banking system"*, and Angela Merkel – after having expressed some reservations – agreed to accept, eventually, *"involvement of national institutions in combating the effects of the crisis."* However, after the G20 Summit in Washington, the involvement of national institutions has continued to support the banking system. An example – commented extensively in international banking circles – is the support of the U.S. Government of one of the most important banks: CITI GROUP. Under the circumstances where CITI GROUP actions have declined by 60 percent, in the week of November 17-23, 2008, the government announced that the U.S. *would intervene to guarantee bad mortgage loans and certain other assets belonging CITI GROUP, with the amount of 306 billion dollars*. The Government of the U.S.A. decided, however, an injection of 20 billion dollars cash from the U.S. Treasury, in addition to the 25 billion dollars, granted in the October *"program to save financial system"*, advanced by Henry Paulson, Secretary of State of the U.S. Government. In exchange for the financial aid – the CITI GROUP has to keep away from a possible bankruptcy – the U.S. Government will receive preference shares for 27 billion dollars.

## § 6. Bankers - forced to restrict spending

Most analysts of the financial system have pointed out that one of the causes of the *"current crisis"* is the *"waste"*, consisting in bonuses of millions of dollars to bankers. For example, Goldman Sachs, UBS, Lechman Brothers, Barclays and other banks – who are now in difficulty – have given substantial bonuses to their leadership, to those bankers who were considered to be *"a business performance management."* Robert Diamond – Head of Commercial Division at Barclays – received in 2007 a bonus of 6.5 million pounds sterling in addition to basic annual salary of 250,000 pounds. Substantial bonuses were also received by other members of bank management teams, like managers from Goldman Sachs, UBS, Deutsche Bank etc... This year more and more banks have decided to give up bonuses and limit the payment of basic salaries of bankers that are still quite substantial. Waste disposal has been requested by Senators of the American to multinational managers who asked for substantial aid from the U.S. legislature. For example, the managers from "General Motors" have asked for a financial support of 60 billion dollars from the U.S. legislatures. After "having shown" that this is an appropriate financial support, a U.S. Senator asked them on what kind of the plane they came to Washington, and when they replied that they came on personal aircraft, the Senator advised them to return home and sell the planes and other liabilities acquired for personal enrichment, thus avoiding the bankruptcy of their company.

## § 7. European institutions - an increasingly important involvement in combating the global financial crisis

Following the negotiations initiated by the French Presidency, the Member States of the Union and also the European Commission have examined the possible and necessary measures to combat the global financial crisis. On November 26, 2008, the European Commission presented a *"plan for economic re-launching"*, comprising of two central elements: a. tax incentives for short-term stimulation of the demand, jobs protection and regaining consumers 'confidence that they can afford to purchase the products they need b. the European Commission proposed – in the following period (years 2009-2011) – to put more emphasis on **"smart investments"** to determine economic growth. The President of the European Commission, José Manuel Durão Barroso, highlighted the need to *"adjust the national measures to those adopted at European level"*. According to the European Commission priority-, at least at this stage – will be given to *"punctual short term actions"*, aimed at, for example, subsidies for the automotive industry. The European Commission shares the opinion of some American industrialists who argue that one should act with more courage for *relocating the automobile industry to Eastern countries.*[21] The European Commission has proposed, at the same time, that Member States should follow the example of Great Britain on reducing added value tax. European Commission supports the view of Prime Minister Gordon Brown that such a reduction would be likely *"to support national economies"*. It is known that the minimum level of added value tax is 15 percent; however, 25 member states practice a percentage higher than the ceiling of 15 percent. Only 2 Member States: Cyprus and Luxembourg have an added value tax of 15 percent. Gordon Brown has proposed a reduction of added value tax from 17.5 to 15 percent by the end of 2009. The European Commission has proposed also to give a more sustained support to small and medium enterprises, which have proven to be largely exposed to the global financial crisis. It is stressed that the European Investment Bank has engaged a "loan *program of 30 billion*

*Euro for small and medium enterprises*". The European Commission decided, at the same time, the reallocation of targeted funds– giving priority – to the vulnerable areas in the Union. Based on analysis, the European Commission found that appropriate measures are necessary to accelerate payments on projects for structural funds.

## § 8. Universal institutions - reforming concerns

The global financial crisis has led to concerns regarding the reform of global financial institutions as well. The Summit in Washington has proposed, among other things, a Breton Woods II, according to which measures are agreed to *"improve the international financial system architecture".* U.S. President, George W. Bush, called for *"modernizing the International Monetary Fund and International Bank for Reconstruction and Development – World Bank"*.[22] Political leaders of several countries consider that the international financial reform should include *"supervisory methods"* where *all the institutions and markets, financial institutions, including offshore and rating agencies, should be attracted.* On reforming the system of universal institutions, the European leaders – led by the French President, Nicolas Sarkozy – have advanced several proposals, including: a. the construction of a system of international finance where the European Union *"has a more important role"*, b. adopt a *"program of action to counteract the effects of the financial crisis"*, c. ensuring accountability and transparency for all participants in the functioning of the global financial system. More emerging powers, especially Brazil, Russian Federation, China and India insist to take an active part in the decision making of the development and promotion of the world financial system. Meanwhile, several countries in the Islamic world formed the D8 group – Islamic Economic International, insisting that the decisions which it takes should be considered at the level of universal economic mechanisms. Heads of state and government – meeting at the Winter Council in Brussels, December 11-12 , 2008 – had to resolve major problems for the economic development of the European Union not only for the new year 2009, which was close, but also for the next 4-5 years at least. Urgent and equally expensive measures had to be agreed to limit the effects of global financial crisis[23], along with measures to counteract the climate change.[24]

## § 9. Limiting effects of global financial crisis - a priority for the European Union

The leaders of the European Union reached full consensus on the adoption of effective measures to limit the effects of global financial crisis.[25] The European Commission proposals[26] have received support, although both at the ECOFIN[27] meeting and during the debates prior to the European Summit in Brussels certain reservations have been expressed.[28] Before the Summit in Brussels, France and Britain have called for a *"Plan as committed as possible to combat the global financial crisis"*, but Germany has been more cautious, considering that it is the main contributor to the Community budget.[29]

## § 10. 1.5 percent of European gross domestic product - a contribution required to effectively combat the crisis

The European leaders reunited in Brussels, on 11th-12th of December 2008 discussed the European Commission proposal on *"the economic re-launching plan of 200 billion Euro"*[30].

Heads of State and Government meeting in Brussels, had to consider ways of promoting the "*economic Plan*", involving 1.5 percent of European gross domestic product, as they had to overcome Germany's repeated reserves. To prepare the Winter Summit in Brussels, of 11th -12th of December 2008, Prime Minister Gordon Brown, President Nicolas Sarkozy and President of the European Commission José Manuel Durão Barroso, met on 8 December 2008 in London, in a MINISUMMIT, during which the three pronounced for *effective and coherent action at the Summit of 11th -12th of December in Brussels*[31]. Even from the first day of the Summit in Brussels,[32] compromising solutions were found, giving expression to European Union leaders' will to address the issue of combating the financial crisis as *"a priority of all Member States"*[33]. After several meetings – at European[34] and worldwide[35] level – the EU has shown perseverance and determination to promote an agreement on measures to counteract climate change. Legislative package designed to reduce carbon emissions by 20 percent over the next 12 years was voted unanimously by the representatives of the 27 European Union Member States[36]. Stravros Dimas, European Commissioner for Environment, said – after the unanimous vote of the Member States: *"If all the other countries follow the example of European Union Member States, then our planet is standing a chance."*[37] On April 2, 2009, the leaders of industrialized countries and emerging economies had decided to act together, in order to limit the effects of the global financial crisis[38]. Barak Obama, the president of the United States, has proposed to reinforce the role of the International Monetary Found to be able to support effectively some countries in difficulty; Nicolas Sarkozy, the president of France, has suggested to find out better solutions in the field of international control on financial system ; some leaders of emerging economies have proposed to be approved an important financial amount, in order to help developing countries[39]; all leaders accepted the idea to facilitate the development of international trade[40], as an important stimulant of the increased productivity in all sectors of the economy all over the World[41].

We can see at national and international level some important measures taken on combating the effects of global financial crisis. The European Union has proved effective not only by the initiatives taken, but above all by the concrete measures taken to limit the effects of this crisis.

There is a hope that – under the current circumstances – the financial crisis will be limited and even eliminated if all institutions at national[42], european and international level would act effectively[43].

**NOTES**

[1] Some conclusions on the effects of this global financial crisis have been underlined on April 2009 Summit of G20 in London, Great Britain.

[2] See the European Summit in Brussels, on November 7, 2008; the Summit of G20 in Washington, on November 15, 2008; the Summit of G20 in London, on April 2, 2009.

[3] *Ibidem*.

[4] In particular, after the Summit of G20 in London, on April 2, 2009.

[5] In order to underline the main conclusions of the leaders of the World on combating the effects of this global crisis.

[6] Jose Manuel Durao Barroso, *Statement regarding the measures combating the world financial crisis*, Brusseles, November 26, 2008.

[7] Nicolas Sarkozy, *Statement at the Conference on the Closure of the European Union Summit*, Brussels November 7, 2008.

[8] Nicolas Sarkozy has stated that the European Union will cooperate with the other powers to of the world to reach this objective agreed by G8. *I wish that on this subject matter, We the Europeans are entirely unite* (*Ibidem*).

[9] Letessier Jean Yves, *L'Europe économique et son avenir*, Ed. Armand Colin, Paris, 2008; Artus Patrick, *La crise financière*, Ed. Descartes, Paris, 2008; Chevalier Jean Marie, *Ou va l'économie mondiale?*, Ed. Odile Jacob, Paris, 2002; Jaques Attaly, *300 décisions pour changer la France*, Ed. La documentation française, Paris, 2008; Eric Delbecque, *Quel patriotisme économique?*, Ed. Puf, Paris, 2008; Jean Luc Greau, *La trahison des économistes*, Ed. Gallimard, Paris, 2008.

[10] Henri du Limbert, "Sarkozy's Economic Patriotism", *Le Figaro*, October 24, 2008.

[11] *Ibidem.*

[12] *Ibidem.*

[13] Gaëtan de Capèle, "The Moment of Truth", *Le Figaro*, October 13, 2008.

[14] Gideon Rachman, "Financial Crisis Redefines Political Leaders", *Financial Times* October 14, 2008.

[15] Philip Stephens, *Financial Times*, October 9, 2008.

[16] "Summit on the crisis in Washington", *Adevărul internațional*, November 15, 2008.

[17] *Ibidem*, p.10.

[18] *Ibidem.*

[19] Henry du Limbert, "Sarkozy's Economic Patriotism", *Le Figaro*, October 24, 2008.

[20] *Ibidem.*

[21] Jose Manuel Durao Barroso, *Op. cit., loc. cit.*

[22] George W. Bush, *Statement at the Summit in Washington*, November 15, 2008.

[23] Jose Manuel Durao Barroso, *Op. cit., loc. cit.*

[24] Vaclav Klaus, "Global Heating Has Become an Ideology", *Adevărul internațional*, December 12, 2008.

[25] Jean Claude Trichet, President of the Central European Bank, stated that *The global economy will probably remain weak in 2009 also and equally the demand of the EURO countries* ("Statement made on December 4 2008", in *Business International*, December 5, 2008, p. 47).

[26] Jose Manuel Durao Barroso, *Op. cit., loc. cit.*

[27] Council of the Ministers of Finance of the European Union.

[28] At the Council of the Ministers of Finance of the European Union (ECOFIN Council) meeting that took place in Brussels at the beginning of December 2008, the German minister of finance, Peer Steinbrueck, manifested reservations regarding the proposals in *The Common Document*, which did not specify „ *the concrete effort each country was supposed to make"*.

[29] Peer Steinbrueck stated at the ECOFIN meeting that anything above the 32 billion promised for combating the crisis Germany's effort would be too great.

[30] Re-launching Plan published by the European Commission November 26, 2008 (Jose Manuel Durao Barroso, *Op. cit., loc. cit.*).

[31] Angela Merkel was – as the daily *„Bild" noticed* – the great absentee of the MINISUMMIT in London. However, the German Chancellor has made her position known before the Summit in Brussels on December 11-12, 2008. Her Excellency has stated that she would not agree with an *Economic re-launching plan* that would jeopardize jobs in the energy consuming industries in Germany. *We cannot be indifferent while jobs in chemical, steel manufacturing industries are being created in the world where environmental legislation is less rigorous than here* (Angela Merkel, "Statement made on December 8", 2008, in the *Bild*).

[32] On December, 11, 2008.

[33] Silvio Berlusconi, *Statement made in Brussels on December 11*, 2008.

[34] Stravros Dimas, European Environmental Commissioner stated, at the UN Conference on global heating in Poznan, in Poland, on December, 1, 2008: *„The Financial crisis has highlighted how dangerous is to ignore imminent warnings. We cannot afford to repeat this mistake in the case of climate changes if we want to avoid the serious economic, social, probably even catastrophic consequences they may have in the following decades."*

[35] *UN Conference on climate changes*, Poznan, December, 1-12, 2008.

[36] At the Summit in Brussels, on December11-12, 2008.

[37] Stravros Dimas, *Statement at the Summit in Brussels*, on December 12, 2008.

[38] The Summit of G20 in London, on April 2, 2009.

[39] Ban Kee Moon, the Secretary General of the United Nations, has proposed 1000 billion dollars as financial support for developing countries.

[40] It was an agreement to increase financial contributions of the states for the development of international trade.

[41] Some leaders of G20 – and in particular from Brazil and India – have underlined that, this way unemployment would be reduced and the economy would be recovered.

[42] The states, first of all.

[43] See the conclusions of the G20 Summit, in London, on April 2, 2009.