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G20 reform: Time to take action – or risk irrelevance

By Chris Giles



Entering crisis: Angela Merkel at Cannes in 2011

Living up to its billing as the world's premier economic forum was always going to be a challenge for the Group of 20.

After a string of failures, the task for the Los Cabos G20 summit is to stop the rot and prevent the organisation becoming irrelevant.

It will be quite a task for Mexico, the host nation.

Since the financial crisis began, the G20 has been seen as the best forum for discussing economic developments and agreeing new directions.

The countries around the table include all the big economies and account for \$17 out of every \$20 earned in the world. The organisation has met at head of state level since 2008, enabling difficult

decisions to be taken. And there has rarely been a more important time to set the global economy on a more stable path.

But there is deep dissatisfaction with the G20, both from participants in the process and external observers, as it has made little progress since 2009.

Paul Jenkins is a fellow of the Canadian Centre for International Governance and Innovation and a former deputy governor of the Bank of Canada.

He says: "G20 leaders have not delivered on their commitments to international policy co-operation ... [resulting in] policy mistakes that could have been avoided, had the gains from

collective action to address what are clearly global issues requiring global solutions been forcefully tackled by the G20”.

Despite the hype surrounding the April 2009 London summit, when leaders promised a new global economic order, the reality has been sobering.

The G20 originated after the 1997-98 Asian financial crisis, with meetings at finance minister level, but made little impact until late 2008, when world leaders gathered in Washington to discuss the most serious financial crisis since the second world war.

After they agreed to refinance the International Monetary Fund, provide a fiscal stimulus and embark on financial sector regulatory reforms in London six months later, the more difficult task of implementation started.

At the September 2009 summit in Pittsburgh, US, world leaders agreed the aim of the G20 should be strong, stable and balanced economic growth.

Succeeding summits in Toronto, Seoul and Cannes all sought to put flesh on these bones with increasingly meagre returns. At first the explanation for lack of progress was that agreement was harder in times of economic growth than in times of crisis.

But, by Cannes last November, that logic no longer applied. The eurozone had fallen back into a banking and sovereign debt crisis and the G20 was standing far from the action. The same fate risks unsettling Mexico’s party, as the summit starts the day after the second Greek election.

Professor Eswar Prasad of the Brookings Institution, the Washington-based independent research and policy institute, says: “The Los Cabos summit faces the real risk of being seen as the nadir of the G20’s ability to act collectively to ensure global financial stability.”

This year, G20 countries can claim to have pledged another \$400bn refinancing of the IMF, in April, which finance ministers and central bank governors said in a statement “shows the commitment of the international community to safeguard global financial stability and put the global economic recovery on a sounder footing”.

That financial commitment apart – one that was not backed by some leading economies including the US – the co-operative landscape of the G20 is poor.

The global economy is slowing rapidly, making strong, stable and balanced global growth a distant ambition. Although some trade imbalances, such as China’s surplus and the US deficit have narrowed, others such as the surplus of oil exporters have grown.

It has the right countries around the table, but the sheer size of the G20 prevents spontaneous discussion, participants say. Sterile debates without any chance of agreement by countries to change policies are the order of the day.

In 2012, the problems appear fundamental. Where countries disagree, the G20 provides a forum for debate, but no mechanism to bang heads together in the collective interest. The omens for Los Cabos are poor.

Yet, none of the depressing history of the G20 deters countries from seeking to chair the group or invite world leaders to summits in their countries.

Officials, often Europeans with deep experience of international summits, say this is more than just vanity on the part of Russia, Australia and Turkey, the G20 hosts in 2013, 2014 and 2015 respectively.

They say that the G20, rather like the European Union, should be seen as a long drawn-out process that is better than the alternative of refusing to discuss difficult economic issues.

The ambition is valid, the countries around the table are roughly right and incremental progress is made.

But, just as with the EU and the eurozone, the risk is that the discussions are so slow and progress so limited that crisis will engulf the world economy before the benefits of the G20 have been demonstrated.

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