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History: Meetings yet to reach the peak of achievement

By Chris Giles

Living up to being “the premier global economic forum” has proved challenging for the Group of 20 ever since its members elevated the group to that role in 2009. With the eurozone sovereign debt crisis threatening the global economic order, the Group has perhaps its most difficult challenge yet at the Cannes summit. The question is whether it will succeed or squander the chance to demonstrate its global importance.

There is no doubt that the calendar this autumn has put the G20 in pole position. Since mid-September, international meetings have been scheduled almost every weekend with the deadline of arriving at a “comprehensive plan” for saving the euro by the time of Cannes.

The summit is therefore the climax of the year’s negotiations. Any failure there to stamp a global seal of approval onto the eurozone outline plan agreed a week before the summit will not be followed in short order by another scheduled event. There cannot be another postponement of difficult decisions unless world leaders simultaneously decide to arrange emergency summits either in Europe or at a global level.

For those awaiting decisive moves from the G20 in Cannes, a look at the recent history books provides more cause for concern than hope. Since the financial crisis turned nasty in 2008, the G20 has achieved significantly less than its supporters and summit hosts have generally claimed.

Before 2008, the G20 was merely an annual gathering of finance ministers established after the Asian financial crisis a decade earlier and few people expected much from the gathering. But after Lehman Brothers collapsed in September 2008, a first leaders’ summit was hastily arranged for that November.

But before the G20 could meet in 2008, the Group of Seven finance ministers took all the difficult decisions – ensuring there would be no more bank failures, a guarantee of liquidity to financial markets, a decision to recapitalise banks and bullet-proof depositor protection – leaving the G20 to focus on additional matters such as a pledge to complete the still-unfinished Doha trade round by the end of 2008 and a half-hearted commitment to fiscal stimulus.

The April 2009 London summit is generally seen as the moment the G20 came of age - when it reversed the economic downturn with an audacious international package including what Gordon Brown, then UK prime minister, boasted was the largest fiscal stimulus “the world has ever seen” and what he called a $1,000bn “programme of support to restore credit, growth and jobs in the world economy”.

The summit outcomes were, in truth, less than the claims with nothing new announced on fiscal stimulus. The welcome money for the Fund had a limited immediate effect on the crisis and there was no agreement on cleaning up the toxic assets in banks. The last issue has been something that has subsequently come to haunt the countries – particularly in the eurozone – that did not take unilateral action in that regard.

The following summits have achieved little more. In September 2009, the Pittsburgh summit was notable for establishing the aim of “strong, sustainable and balanced” world growth and a process to achieve it, which has inched forward ever since. Come the Toronto summit of 2010, the global recovery was in full swing and sentiment had shifted towards fiscal consolidation so leaders agreed to halve deficits by 2013, generally because they all were planning to do so already.

By November 2010, the Seoul, summit was marked most clearly by divisions. In a rancorous summit – with constant spats between the US and China, the G20 achieved little save for delays in the process striving for balanced growth, dressed up as progress towards the goal.

The underlying problem is that countries put their national interests first and are only willing to agree to multilateral deals if they seem to square with their national interest, says professor Eswar Prasad of Cornell University.

“Rifts among G20 countries tend to become exposed in calmer times, which prevents the group from taking a more concerted approach to longer-term objectives such as unified financial regulatory standards and reform of the international monetary system,” he said.

Ousmene Mandeng of UBS added that the G20 missed an opportunity to remain relevant in 2011. “Failure to address critical issues and to guide market expectations when the going was rough has undoubtedly weakened its relevance and it will take some proactive engagement to restore the image of an effective body, a reputation it had after Pittsburgh at the beginning of the crisis”.

Since differences of outlook dominate the G20, the G8 has again had more success in making decisions in 2011. This year France has chaired both the G8 and G20 and originally planned to take the opportunity to bury the smaller grouping.

France decided against. Instead, its finance ministry has held numerous teleconferences among G7 finance ministers (excluding Russia, which is a member of the G8); it organised coordinated intervention in currency markets in March to help Japan force the yen down following its earthquake and tsunami; and in August it also offered a backstop to panicking financial markets.

Finance ministers prefer G8 meetings, they say privately, because the gatherings offer a smaller forum to discuss events privately and freely without having to make speeches to hundreds of people. Instead of dying, the G8 is alive, well and already has a summit in the diary for Chicago next May.

Not only is the G20 unwieldy, but it also has a legitimacy problem. Although much more representative of the global economy than the G8, the wider group does not include all of the world's 20 largest economies. Spain, for example, tends to rank somewhere near 13th in the world but merely has observer status. South Africa, the only African nation in the G20 as of right, has an economy that tends to rank close to 25th.

Hangers on also abound. At G20 summits, hanger's on generally also include the United Nations, the chair of the African Union, the president of the European Union, the head of ASEAN, the International Monetary Fund, the World Bank, the International Labour Organisation, the Organisation for Economic Cooperation and Development, the World Trade Organisation and the Financial Stability Board. With such a cast list, decisions are difficult to agree at a G20 summit unless comprehensively trailed in advance.

The Cannes summit therefore has more of a challenge than usual in diffusing a current crisis that threatens the global economy. Whether it can move from platitudes to policy on the eurozone and on global imbalances will be the test of its relevance as a body, even if it has already shown itself to be short of the world's premier global economic forum.