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Leaders aim to make a difference

By Chris Giles

No smoke without fire: miners block a motorway with burning tyres near Oviedo in Asturia, Spain, during protests against plans to cut coal subsidies

Crisis is again stalking the Group of 20 summit. As the leaders of the world's most powerful countries fly to Los Cabos in Mexico, the dark mood that surrounded previous summits in Washington, London and Cannes is back.

In the past week, the eurozone has added Spain to the list of countries needing financial assistance. After this supplement went to press, Greece voted in a second election that is properly viewed as a referendum on its continued membership of the European single currency.

The shockwaves of the developed world's financial and economic crisis are still reverberating around the global economy almost five years since it started in August 2007.

The Los Cabos summit offers the G20 a chance to show whether a gathering of world leaders can play a more constructive role than just important and interested observers of the continued crisis.

Recent history suggests not. Last November at the Cannes G20 summit, the agenda was completely overshadowed by internal eurozone matters, occurring partly at the summit venue, but not part of the formal G20 discussions.

Under huge pressure from financial markets, Silvio Berlusconi, then Italian prime minister, accepted intensive European and International Monetary Fund surveillance of the country's economy, but this failed to quell the storm and he resigned days later.

Greece's situation was even more critical. George Papandreou, its then prime minister, suggested the country hold an in-or-out referendum on the euro, shocking other eurozone leaders who thought this would destabilise the situation further. He was summoned to Cannes, told to think again and quit within a week. Amid this drama, the G20 agreed little.

The danger for the G20 and Mexico, the country sitting in the chair in 2012, is a repeat of the Cannes experience. Held in another tourist resort, Los Cabos, on the southern tip of Mexico's Baja California Peninsula, the summit risks becoming an exercise in firefighting – for Spain and again Greece – rather than fulfilling the G20 ambition of creating strong, stable and balanced global economic growth through co-operation in the world's "premier economic forum".

The global economic situation is serious. The eurozone is on the edge of renewed recession and avoided it only though Germany's remarkable strength. Many European countries are in recession. US growth is again slowing, raising the prospect of further monetary stimulus in the months to come. And emerging economies, the powerhouses of global growth since 2009, are no longer finding expansion so simple. Growth has slowed across all the large emerging economies – Brazil, Russia, India and China – and immediate prospects look weak.

At the heart of the renewed loss of confidence in the global economic outlook, the eurozone is struggling to find solutions to the crisis that are acceptable to all amid a further intensification of the strains that have now required Spain, Ireland, Portugal and Greece to seek loans from other European institutions.

In its recent economic outlook, the Organisation for Economic Co-operation and Development, the international organisation aimed at improving the performance of advanced economies, warned of a vicious circle in the eurozone "involving high and rising sovereign indebtedness, weak banking systems, excessive fiscal consolidation and lower growth".

In such a precarious situation, world leaders, finance ministers and heads of international organisations have all offered their preferred solution to the crisis.

Fearful of the spillovers from a eurozone meltdown to the US economy, president Barack Obama called on the eurozone this month to step up efforts to integrate and collectivise policies.

He said: “Leaders can lay out a framework and a vision for a stronger eurozone, including deeper collaboration on budgets and banking policy. Getting there is going to take some time, but showing the political commitment to share the benefits and responsibilities of an integrated Europe will be a strong step.”

The call for more European integration is aired around the world. Christine Lagarde, head of the IMF, urged “more Europe, not less”, particularly in the banking sector.

She said: “To break the vicious cycle of financial-sovereign risks, there simply must be more risk sharing across borders in the banking system,” adding that deeper fiscal integration “should go hand-in-hand with these efforts”.

The UK, whose economy is already in recession after being buffeted by the eurozone crisis, high energy prices and austerity measures, is most vocal in calling for action, while insisting it will play no part in any eurozone settlement. George Osborne, the chancellor, accused the single currency crisis of “killing off” Britain’s recovery.

Most of these calls for action are directed at Germany, which is seen as having deep enough pockets to solve the eurozone crisis, but not the will to integrate quickly. Berlin has moved a considerable way from the stance it adopted in Cannes.

Alongside austerity measures, Germany is willing to agree to France’s requests for greater emphasis on growth. It has also accepted that higher German domestic wages and prices will be part of efforts to encourage peripheral eurozone economies to regain competitiveness and help rebalance their trade deficits.

This month Angela Merkel, the German chancellor, also made it clear that she expects the members of a currency union to move closer together, but refused to accept the urgency of the situation that others have stressed.

“I don’t believe that there will be one single summit that will decide on a big bang,” Ms Merkel told German television this month. “But what we have been doing for some time, and on which a working plan will certainly be presented in June, is to say we need more Europe.”

These high-level warnings, encouragement and brinkmanship are likely to dominate this week's G20 summit, making life extremely difficult for the Mexican hosts who will have little control over the process.

With so many external distractions to dominate the summit, Mexico has not packed the agenda.

Professor Eswar Prasad of the Brookings Institution says: "The host country Mexico has wisely set the bar very low for expectations of any deliverables from the summit, especially in terms of long-term initiatives such as reform of the international monetary system".

Instead, it has urged G20 countries to make incremental progress on economic stabilisation, strengthening financial systems, improving the international financial architecture, enhancing global food security and promoting sustainable development.

These are all long-term ambitions on which a continued dialogue at the G20 level is useful and the summit at head of state level brings its own dynamic for action to be taken.

Mexico is also seeking to set the G20 on an incremental path to improve economic co-operation rather than the revolutionary ambitions held by France last year, which were so disappointed in Cannes.

It will, nevertheless, be a challenge for the hosts to escape from the immediate economic crisis and focus minds on longer-term issues when the here-and-now is so urgent.

The best hope for the G20 summit is that the economies of the world, representing more than 85 per cent of global income, can reinforce the urgency of the situation, avoid public disputes and lay the conditions for successful European summits later in June.