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Troubles in emerging markets may dominate G-20 summit

An expected cutback in Federal Reserve stimulus lowers growth prospects in developing countries, some of which have seen sharp falls in their currencies.

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WASHINGTON — For the first time in several years, the annual G-20 summit won't be dominated by the Eurozone's debt troubles. But that may be little comfort to world leaders gathering this week in St. Petersburg, Russia.

In addition to sharp differences over the conflict in Syria, which is certain to hang over the meetings Thursday and Friday, President Obama and other heads of the so-called Group of 20 major economies have a new economic threat on their hands.

After financial fires were contained in the U.S. and then Europe, things now are heating up in the emerging economies.

India, Turkey, Brazil and South Africa are among the member nations whose currencies have tumbled as investors have pulled back from emerging markets in recent months.

The catalyst has been the expected cutback in Federal Reserve stimulus, which is marking an impending end not only of the cheap cash and ultra-low interest rates for Americans, but a new era for developing countries that lived high off the hog on the Fed's easy-money policies after the financial crisis.

The capital flow out of emerging markets reflects the shifting global landscape: Growth prospects in the U.S. and other advanced nations have improved while those of up-and-coming economies, including China, have weakened somewhat.

"The emerging markets [are] largely viewing monetary policy in advanced economies as causing problems for them," said Eswar Prasad, a senior fellow at the Brookings Institution, "and the advanced economies are basically taking the position that the emerging markets are chronic complainers."

Ever since the G-20 heads united in 2008 in a coordinated effort to fight the financial crisis, this self-appointed steering committee for the global economy has struggled to reach consensus on key matters of economic policy.

For much of the last five years, the summits have been overshadowed by an outbreak of troubles in Greece and other parts of the Euro area and the broader policy question they raised about whether government austerity or spending was the best medicine for their economic ills.

The debate over fiscal policy isn't over, though there appears to be wider agreement that countries have gone too far in pushing austerity programs. And with the Eurozone debt problems having eased — and the region showing signs of emerging from its recession — the sense of urgency at the G-20 has lifted.

As this year's host of the G-20, Russia went with a generic theme of "economic growth and job creation."

Analysts said the working sessions — and expected final communique — will touch on an even wider range of issues than before, including trade liberalization, sustainable development, financial regulation, tax avoidance and global warming.

The broader menu of topics suggests a return to more normal times as world leaders shift their focus from acute to chronic economic problems, from the short term to medium term.

For example, there's likely to be a push in St. Petersburg for countries to pursue structural economic reforms to foster growth, such as deregulating industries, overhauling immigration or repairing ports, rather than relying on central banks to print money in the hopes of boosting investment and exports.

Yet even as G-20 leaders consider longer-range goals on government spending and debts, they are expected to water down any commitment by avoiding hard numerical targets, such as debt-to-GDP ratios, instead going with a more general agreement that countries will lower their debts, said Domenico Lombardi, a G-20 expert at the Center for International Governance Innovation in Canada.

"Countries are very much immersed in their own domestic issues and are not going to be entirely engaged in the G-20 agenda," he said, noting that many nations are trying to forge bilateral or regional trade and economic deals as opposed to multilateral ones.

As a result, Lombardi and many other analysts see few concrete actions coming out of the St. Petersburg summit. For all the authority that the G-20's sheer size gives it — its member nations represent 85% of the world's economy — the group is too big for practical purposes, said analysts at Capital Economics.

"The G-20 is an informal grouping which has no clear decision-making process, no permanent staff or budget and no mechanism by which it can enforce its decisions," Capital Economics said.

Beyond the organizational limitations, the G-20 leaders this week will be preoccupied by Syria and reports it used deadly sarin gas against citizens. Obama, who over the weekend said he would seek congressional approval to attack Syria, is likely to make a push during meals and informal sessions to generate support from world leaders.

Syria isn't on the G-20's formal agenda. And with Russian President Vladimir Putin, a chief Syria ally, serving as host of this year's G-20, there may be a chill in the halls of the 18th century Constantine Palace, the summit site.

Obama's relationship with Putin has grown increasingly icy over the past year.

After Russia gave refuge to Edward Snowden, the former spy agency contractor who faces criminal charges in the U.S. for disclosing secret surveillance information, Obama canceled a planned summit with Putin in Moscow ahead of the G-20 gathering. No bilateral meeting between the two presidents has been scheduled for St. Petersburg, Obama administration officials said.

In a briefing Friday, a senior administration official sought to downplay the U.S.-Russia tensions. Ksenia Yudaeva, an MIT-trained economist and Putin's chief assistant or "sherpa" for the G-20, declined to comment when asked about how the bilateral relations were affecting the summit preparations.

A senior U.S. official said that although Obama would "consult with partners" in St. Petersburg on Syria, "there's a robust agenda of work to be done at the G20, and leaders are going to be focused on that."

Obama's priority, officials said, will be to keep pressing the G-20 to strive for a re-balancing of global demand. He initiated that effort at the Pittsburgh summit in 2009 so that countries such as the U.S. save more, while big trade-surplus nations such as China and Germany boost domestic consumption.

Some progress has been made since then, but "there's still weak and uncertain and uneven growth across the world, and there's still a lot of work for this group to do to fulfill its lodestar mission of strong, sustainable and balanced growth," said Matthew Goodman, former international economics director on Obama's National Security Council and now at the Center for Strategic and International Studies.

Any complacency that may have set in with the easing of the Eurozone crisis, he said, was now likely to be broken by what's happening in the emerging nations — grievances that will be voiced around the G-20 table.

Tumbling currencies of some of these countries have sparked fears about their ability to pay off their debts as well as the threat of higher inflation. Some blame the financial turmoil on Fed policies and those of other central banks, but others see them as more home-grown weaknesses.

"I'm sure the U.S. and other advanced countries are worried about that volatility as well," Goodman said, "but I would say they have a very different analysis of the sources and solutions to that. So I think you're still going to have a difference of views in the room."

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