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The G20 Summit: A Wasted Opportunity in Mexico

By Barry Desker

Synopsis

The G20 Summit in Mexico squandered an opportunity to take firm decisions to galvanise a concerted response to an impending global financial crisis. The United States should take the lead in building a consensus for unified action.

Commentary

THE G20 LEADERS met in Los Cabos, Mexico on 18 and 19 June 2012 even as the Eurozone dithered and the world headed towards a recession, with Spain poised to follow Ireland, Portugal and Greece in requiring international bailouts.

However those who expected firm decisions aimed at galvanising a concerted global response to an impending global financial crisis were disappointed. The G20 Summit produced a declaration long on rhetoric but weak on substance, especially in dealing with the immediate issue – the risk of financial contagion - which threatens to undermine global prosperity.

The G20 group was born out of the recognition that new charts were needed for a new age. As a shift in global power occurred with the emergence of rising powers such as China, India and Brazil and the re-emergence of Russia, a new global structure was needed which better reflected current power alignments. While the G7 represented the established powers, the G20 was seen as a more representative group with the participation of both established and rising powers.

By contrast, the United Nations is still dominated by the permanent members of the Security Council who wield vetoes. These states were the victors of World War Two but some are now second rank powers such as the United Kingdom and France, which are in any case members of the European Union.

The UN has the advantage of being globally representative and this makes it the venue of choice for small and medium sized states. On the other hand, the rising powers feel that their interests are under-represented in the UN and they have pushed for the G20 to be given greater prominence.

The rising powers among the G20 states are also seeking a larger role in global economic governance. They argue that the International Monetary Fund (IMF) is dominated by the United States. Key decisions require 85 per cent support. The United States, with 16.75 per cent voting rights based on its financial contribution of

17.69% to the IMF, has effectively a veto on decisions. The recent election of the new heads respectively of the IMF and the World Bank showed that these institutions are still in the thrall of Europe and the United States even though the significance of the West in the global economy today has declined.

Emerging economies to the rescue

The IMF needs at least US$1 trillion to have a credible bailout fund to restore confidence in the Eurozone and to prevent global financial contagion. In Mexico, the United States did not respond to the IMF's call for the expansion of its crisis intervention fund. By contrast, on 18 June, the IMF said that China was offering $43 billion, Brazil, Russia, India and Mexico $10 billion each, and $5 billion came from Turkey, with smaller sums from a handful of other emerging economies. China joined Japan and Germany as the crisis fund's three leading contributors.

As its share of the global economy increases, China will seek greater influence in the IMF in the decade ahead. But China will face strong resistance from the United States and Europe if it pushes for a redistribution of quotas or a change in the system of election for the head of the IMF or World Bank. The current crisis will therefore provide China and other rising powers with an opportunity to stake their claims for a larger role in these institutions if they are prepared to take on greater responsibilities.

Burden sharing in multi-polar world

The Los Cabos summit served as a reminder that we live in a world where power is more diffused and the US is no longer inclined to underwrite global prosperity. The leaders failed to agree on urgent action to increase the financial firewalls and to push for concerted action to use the available funds, especially the Eurozone's bailout funds, to purchase sovereign bonds from countries like Spain and Italy. This highlights the lack of political will and the absence of global leadership. In previous crises, such as the Asian financial crisis in 1997-98, a dominant United States could galvanise its allies. But a multi-polar world complicates efforts to ensure more effective global governance and burden sharing.

As the risks of a financial panic increase, especially if there is a Greek exit from the Eurozone and outflows of funds from Spain and Italy occur, it is essential that both established and rising powers agree on concerted action. Domestic political agendas should not undermine a coordinated global response. While no significant decisions were reached on the issue in Los Cabos, the G20 will have to push Europe to stimulate its economy and to support those member states facing the onslaught of financial speculators and sharp declines in access to trade finance.

As the United States heads into a close election, it will be difficult for President Obama to provide leadership through an infusion of US funds. The US will have to cajole, use microphone diplomacy and work through multilateral institutions like the IMF to push Europe towards early action. The US should cooperate with other members of the G20 to support the IMF and to recognise the systemic role that it plays in ensuring global financial order. Even if there is no global financial hegemon today, there will be a need for leadership. This can now only be done by building a consensus for unified action.

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