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## The G20 summit in Mexico – Nothing but declarations of intent?

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# The Current Column

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## The G20 summit in Mexico – Nothing but declarations of intent?

*Bonn, 25 June 2012.* As expected, the G20 summit in Los Cabos, Mexico, at the beginning of last week was dominated by the euro crisis. To the call from industrialised countries and emerging economies to find an early solution so that the world economy did not become even more destabilised, the Europeans essentially responded with declarations of intent, which do not have to be honoured until the EU summit this week.

According to IMF estimates, the world economy will grow by between 3 and 4 percent in 2012 and 2013, driven by the developing countries and emerging economies. The risk is, however, that growth will be far lower if the euro crisis escalates or such other risk factors as fluctuating raw material prices or a slump in the US economy materialise. The likelihood of a prolonged crisis remains high, and – despite all the criticism of intangible results – the G20 is where the absolutely vital collective action to be taken by the leading industrial nations has to be negotiated. IMF calculations show that it makes a significant difference whether the major economies take coordinated action or pursue their own short-term national interests. The IMF puts the difference at several percentage points of global economic growth or 30 to 50 million jobs worldwide.

### **Emerging economies strengthen the IMF**

One of the few tangible outcomes of the summit was the increase in IMF resources by more than US\$ 450 billion, with substantial contributions from China, Brazil and Russia. Clearly, these resources are intended as the “last line of defence” for the euro’s continued existence, even though the summit declaration says that the money is available to all IMF members. The emerging economies have thus bought a larger say in the running of the IMF and a further review of capital shares in 2014, with the prospect of more voting rights in the future.

They are thus pursuing a twin-track strategy: on the one hand, they are subscribing to the clear profession of faith in multilateralism set out in the Los Cabos final declaration, and they are strengthening the IMF as the most important actor in global economic governance. On the other hand,

the emerging economies are continuing to build on regional cooperative associations, as in Asia, and setting up new institutions of their own, such as the BRICS development bank and the foreign-exchange reserve pool of the BRICS countries announced on the fringes of the G20 summit. The train is thus clearly heading towards a multipolar global economic order, although the balance of power is constantly shifting. While the Europeans believed only a few years ago that the IMF, as their means of wielding influence, was responsible only for disciplining others, they are now, all of a sudden, dependent on it. In the wake of the G20 summit it is already apparent that the IMF has become less restrained in its dealings with the Europeans. It describes the German government’s policy of balancing the budget by 2014, for example, as positively harmful for the world economy. It remains to be seen what position the IMF will adopt as the euro crisis continues and what form the IMF conditionality of a “G20 consensus” will take.

### **Inclusive green growth – the Mexican presidency’s motto**

Every G20 presidency tries to give the G20 discussions its own distinctive substantive focus. The Mexicans have tried this with the notion of inclusive green growth, meaning that the economic growth that is the goal is to be socially acceptable and also environmentally compatible. Clearly, the aim was to prevent the G20’s growth-oriented discussions from being completely decoupled from the debate at the Rio+20 summit that were to follow immediately afterwards. Specifically, the G20 final declaration expresses support for the many international processes geared to “green growth”, a study group on climate finance was set up, and the impending establishment of the Green Climate Fund, for whose seat Bonn is a candidate, is welcomed. Explicit reference is made to the need for the structural transformation of economies towards a climate-friendly development path. This may be dismissed as mere rhetoric, if only because of the meagre results achieved at the Rio+20 summit. But it is remarkable nonetheless that industrialised countries and emerging economies are at least able to agree on a common

goal and on steps to be taken jointly to implement policies aimed at “green growth”. Thus the Mexican proposal for the development and discussion of a toolkit for “green” growth policy was enshrined in the final declaration.

This, then, forges the link to the G20 “development agenda” that has been pursued by a G20 working group since the G20 summit in South Korea two years ago. Topping that agenda are food security, infrastructure and “inclusive green growth” in developing countries. The focus in this context is increasingly shifting to the major challenge of investment in environment-friendly infrastructure. Expanding and transforming the energy sector and coping with the consequences of urbanisation, with particular emphasis on mass transport, are areas in which the G20 wants to see visible progress in developing countries. More clearly than ever before, reference was made in Mexico to the need for cooperation with the private sector, which has committed itself, through Business-20, to form a Green Growth Action Alliance, in which new business models are to be developed especially for investment in developing countries. The Roland Berger management consultancy submitted to the G20 a study showing

that investment risks in developing countries have been systematically overestimated in the past.

The next few years will tell whether the G20 – going beyond its more restricted mandate of economic coordination among the G20 countries – can actually help to orient governments, international organisations and the private sector towards common objectives and achieve quantifiable progress in the interests of sustainable global development. Two important policy areas that play a part in this context have been pursued by the G20 for several years and have been extended, as G20 areas of activity, until 2014: the fight against corruption, where some significant progress has actually been made through international cooperation, and the reduction of fossil fuel subsidies, where so far nothing has been forthcoming beyond declarations of intent. The results are therefore mixed. It will therefore be all the more worthwhile continuing to measure the G20 against its declarations of intent, especially as, in Los Cabos, it itself introduced a number of instruments for rendering account for the implementation of commitments, against which it intends to measure itself.



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