



**Brookings Institution & Ministry of Foreign Affairs and Trade of the Republic of Korea**

*Conference on “Major Issues for the Mexico G-20 Summit”*

April 5, 2012

*The Brookings-MOFAT conferences operate on a non-attribution basis under the Chatham House Rule<sup>1</sup>.*

On the April 5, 2012, the Global Economy and Development at the Brookings Institution and the Ministry of Foreign Affairs and Trade (MOFAT) of the Republic of Korea co-hosted a conference in Washington D.C. to consider the major issues, challenges and opportunities for the Mexico G-20 Summit. The upcoming Summit will be held in Los Cabos, Mexico on June 18-19, and presents a critical opportunity for the G-20 members to come together to discuss and address important international concerns. Discussions of the conference, therefore, revolved around the current economic climate, continuing items of the G-20 agenda and issues identified under the prerogative of the Mexican Presidency, as well as the way forward for the G-20 in Mexico and beyond.

**The Financial Crisis and Current Global Economic Climate**

Mexico assumed the Presidency of the G-20 in 2011, at a time when global financial concerns and the eurozone debt crisis had engulfed the agenda, as was seen at the 2011 Cannes Summit. Fortunately, the global financial market stress has somewhat eased since then, with the steps taken by global leaders partly attributable. However, the global economic recovery remains slow, and the continuing eurozone difficulties and high oil prices threaten recent and future growth prospects.

The sovereign debt crisis in Europe continues to pose a profound challenge to the international financial system. While the situation has improved marginally in recent months, the risks are not gone and the possibility of a national default in the eurozone outside of Greece remains. Nevertheless, the long-term refinancing operations (LTRO) of the European Central Bank (ECB) have contributed to ‘keeping Europe afloat’, providing sufficient liquidity to reduce the chance that a major bank will go under and generally easing monetary conditions. While the response to the crisis may have been enough to avert disaster, a number of the underlying problems in the eurozone have still not been dealt with.

Furthermore, it was suggested that there is a dangerous level of complacency in Europe at the moment, with the pace of leadership having slowed and sense of urgency having somewhat diminished. It will be critical for leaders in Europe to continue to move forward with difficult decisions and collective political sacrifices. This may need to come at the behest of the international community, and the G-20 can play a useful role in pushing Europe to take action and maintain sufficient momentum to avoid disaster. Aptly, regaining economic stability and restarting growth was one of the five major priorities outlined by President Calderon for the Mexico Summit, creating sufficient space for continued efforts on these issues by G-20 members. Whether or not current economic challenges again dominate the Summit agenda will remain to be seen, though the outlook prospects are more positive than November 2011.

## **The Role of the G-20: Macroeconomic Policy Coordination and Trade**

### ***Macroeconomic Policy Coordination***

Macroeconomic policy coordination has evolved within the G-20 since its creation as a Leaders Summit in 2009. While the Washington and London Summits focused almost entirely on substantial, coordinated fiscal and monetary stimulus to prevent disaster in the global economy, the introduction of the Framework for Strong, Sustainable and Balanced Growth in Pittsburgh expanded the ambit to include medium term actions to ensure policy coherence and coordinated direction. This focus grew under the Korean presidency, whereby indicative guides for rebalancing under the Mutual Assessment Process (MAP) were articulated. Detailed work was undertaken prior to the Cannes Summit to continue addressing macroeconomic issues and international financial stability, though the monopolization of the Leaders' discussion by the eurozone crisis prevented substantive action being taken and returned the focus to short-term concerns.

There is criticism that, broadly speaking, the G-20's success in macroeconomic coordination is dependent on the presence of crisis and urgency, as evident in the momentous achievements of the G-20 in the early post-2008 period, in comparison to subsequent Summits. This reflects deeper existential concerns about the role of the G-20 in the international system and its ability to meaningfully contribute to global governance in the absence of crisis on a sustainable basis. In this respect, a 'glass half full' perspective was offered, insofar as the G-20's macroeconomic policy coordination role is still useful and has resulted in incremental progress towards more harmonized policies. Analogy was drawn between the G-20 and a firehouse, which remains crucial even in absence of a fire. The movement of the G-20 away from crisis and towards institutionalization represents an opportunity to "build the firehouses and purchase the fire trucks" in order to not only continue addressing important fiscal and monetary concerns in the global system, but to be prepared for the next crisis should it occur.

In this respect, the outlook for Los Cabos is positive. The eurozone crisis is still likely to be a dominant topic of conversation and the G-20 should continue to play a constructive role in addressing major global economic risks. Nevertheless, there will also likely be

space for discussion of short and medium term macroeconomic frameworks, with a push for rebalancing both internally between different contributors for growth, and globally between current account surplus and deficit countries. Additionally, discussions on the Financial Stability Board (FSB) will remain important, particularly given its role in financial regulation. However, lingering issues regarding inclusiveness and legitimacy will need to be discussed. On the whole, continued efforts to reach agreement among members on consistent fiscal, monetary, exchange rate and structural policies to support global growth will be important not only in Mexico, but in the years ahead.

### ***Revitalizing Multilateral Trade Efforts***

Multilateral trade has been a relatively minor but still important part of the G-20 agenda over the past three to four years. Efforts have primarily focused on two areas: putting a stop to new protectionism and completing the Doha round of multilateral negotiations. Unfortunately, good intentions have not been matched by effective action. While some positive outcomes have come from discussions of protectionism there is much that has not been addressed. Specifically, G-20 efforts to revitalize the Doha round have not succeeded; unfortunately, this is largely as a result of lack of effort. The pronouncements on multilateral negotiations were not accompanied by meaningful action, such as instructions to trade negotiators in-country to follow up issues. The limitations of the G-20's response on the issue of trade was highlighted as a learning opportunity vis-à-vis efforts in other areas, insofar as insufficient follow-up undercuts effectiveness and credibility.

Going forward, it is unlikely that definitive action will be taken at the Los Cabos Summit on the issue of trade. This is in spite of President Calderon's earlier-articulated trade goals for the Mexican presidency, including encouraging free trade by rejecting protectionism and correcting global commercial and financial imbalances. The key barrier for such efforts at the upcoming summit is the inadequate preparation and lack of time in which to engage in substantive negotiations prior to the leaders meeting. Nonetheless, these difficulties are not justification for inaction, and the G-20 has an important role to play in attempting to redress the problems in the multilateral trading system. While the G-20 will not likely discuss the large ambit of trade issues in Los Cabos, it could start a process towards reviving constructive work on trade going forward.

Beyond Mexico, revitalizing multilateral trade will likely require a grand bargain within the WTO. In this respect, the G-20 could play a role in bringing together major trading countries, particularly those WTO members who are in conflict. There is scope for leadership from G-20 members in committing to changing current restrictive policies, with a view towards improving output and employment in their own country and improving the prospects for economic development in the poorest countries. As a first step, it would be both feasible and constructive for the G-20 to begin consensus building to move these negotiations forward.

### **Beyond Crisis: Enhancing International Cooperation on Green Growth and**

## **Development**

The G-20 Summit was launched at the leaders level with the main purpose of managing the 2008 financial crisis and preventing future crises. However, there has been a shift in subsequent years to broaden the agenda beyond crisis management to wider issues of international concern. Two such issues that have been added to the G-20 agenda in recent years include green growth and development.

### ***Green Growth***

The concept of green growth encompasses the ideas of economic growth and environmental sustainability. Given the magnitude and urgency of global environmental and economic issues, as well as their truly global nature, there is a unique opportunity for the G-20 to strengthen international cooperation on green growth.

The importance of such efforts cannot, according to participants, be underestimated. There has been remarkable growth in the past decade, but pockets of poverty persist, not only in fragile and least-developed states and emerging markets, but also at the sub-national level of well-off countries. Concomitantly, the world's natural resources are being depleted at an exponential rate. As a result, the world's growth trajectory is thus not inclusive enough and is resource-depleting. The rapidly growing population – predicted to reach 9 billion by 2050, will further compound present challenges. For this reason, among others, the current decade presents a critical opportunity to make transformational change to the current trajectory. In this regard, green growth provides for a robust growth path utilizing modern technologies and policies to spur growth while prioritizing environmental protection and resource efficiency. A shift away from old paradigms that pitted growth against environmental protection towards one that recognizes them as mutually reinforcing will facilitate this transition.

There are many organizations moving forward on this agenda at the global level, including the Organization for Economic Cooperation and Development (OECD), United Nations Environmental Programme (UNEP), United Nations Development Programme (UNDP), and World Bank. However, this has also, to an extent, led to a fragmentation of issues and ideas. Any role for the G-20 in green growth will need to be clearly separate from other fora and mandates, such as Rio+20, so as to avoid duplication and ensure a constructive contribution.

In this regard, the G-20 has a unique comparative advantage in building consensus, articulating global priorities, and linking economics and politics with wider issues. Importantly, the G-20 provides a place where those in charge of economic and financial policy can be educated about green growth and encouraged take on those parts of the puzzle within their competency. Furthermore, the G-20 can provide strategic leadership in emphasizing the importance of green growth and building the political narrative whereby economic growth and environmental protection are reinforcing, rather than competing priorities. Part of this will necessarily involve discounting the future into the now, in order to communicate and frame the implications of current problems to the

public, as well as the actions available to address them.

Additionally, the G-20 can call on international institutions to help deepen the evidence case on the economic benefits of green growth. While this is widely accepted anecdotally, further analysis will lead to greater confidence among economists and policymakers that green growth is the preferred path to economic development. Promoting and accelerating peer-to-peer learning, knowledge sharing, identification of best practices and development of technical capacity constitute other important areas in which the G-20 can enhance international efforts on green growth.

However, as with other issues, the G-20's involvement in the green growth agenda is not without criticism. There has been pushback amongst some developing countries that argue it represents a new form of trade restriction and protectionism, or a type of aid conditionality. It was agreed by conference participants that resistance to the terminology indicates a communication gap and disparate understanding with regards to the opportunities green growth really offers. Conversely, it has also been suggested that the G-20 is going too far on the matter, and overlapping or duplicating the mandates of other, more inclusive international institutions.

This again comes down to a question of how green growth is framed. If promoted as an "opportunity agenda" that provides an actionable approach to achieve sustainable development rather than replacing it, green growth will likely be more widely accepted. Furthermore, it will remain important to continue to involve non-G-20 countries, as well as civil society actors and the private sector, in order to address legitimacy concerns. In so doing, there is a need to strike a balance between the provision of global public goods and the importance of country-specific solutions coming from the ground up.

Strong leadership in linking global priorities and framing the discussion is thus within the competency of the G-20 to undertake at the Mexico Summit. The efforts of leaders in Los Cabos could play a key role in painting the vision for the G-20's role in green growth going forward, and have implications for encouraging discussion on the issue at the subsequent Rio+20 Summit.

### *Development*

Development, like green growth, represents another important global issue outside of the G-20's original crisis mandate. However, in at the 2010 Seoul Summit, the Republic of Korea played an instrumental role in including and prioritizing development within the G-20 agenda. Development was framed as an issue on which the G-20 could serve as a global steering committee, and the subsequent Seoul Development Consensus and corresponding Multi-Year Action Plan embodied the G-20's commitment to address global poverty and inequality. Unfortunately, the monopolization of the Cannes agenda by the eurozone crisis prevented more substantive work taking place outside of the Development Working Group in 2011. Nevertheless, the G-20 has continued to articulate

an interest in development, recognizing that development imbalances, as much as current account imbalances, affect global success.

However, these efforts are hindered by the fact that the G-20 has not yet established a clear role for itself within the complex global development framework. The wide range of topics and viewpoints expressed by conference participants reflect the multitude of development issues, actors and challenges within the international system. The presence of numerous development fora and commitments, as well as overlapping roles and mandates within the global governance institutional architecture, has led to increasing complexity of the global development agenda in the last decade. There has been a proliferation of development activities, including the OECD High-Level Forums on Aid Effectiveness (most recently held in Busan), the U.N. Millennium Development Goals and post-2015 process, and the U.N. Sustainable Development Goals and Rio+20 Summit, in combination with other global efforts.

Furthermore, the nature of international development has evolved, with changes in the recipients of development assistance, changes in the donors, and changes in the context and framework. Specifically, the development framework now includes issues such as climate change, environmental vulnerability, challenges from globalization, the changing nature of global governance, and changing patterns of inequality within countries.

It will be important for the G-20 to establish its comparative advantage within the global architecture. In this respect, all participants agreed that the G-20 should only act on development where the value-added is clear, and where its involvement is complementary to, rather than competitive with, other efforts. The G-20's role as a repository of global political will, and its ability to mobilize the support of its members, uniquely positions it to foster cooperation in support of key global initiatives, commitments and partnerships. There are synergies, in particular, between the Seoul Development Consensus and the Busan Global Partnership for Effective Development Cooperation, both of which emphasize partnership, achieving concrete and measurable results, and incorporating the private sector in development.

The two major criticisms surrounding the G-20's role in the development agenda stem from exclusivity and inappropriate agenda expansion. With regards to the former, the G-20's involvement in development has been challenged on the basis of a legitimacy deficit resulting from the exclusivity of its membership. In this respect, it was widely agreed the G-20 will need to do more to include those not "sitting at the table". As yet, the channels for continuous collaboration with low-income countries and other excluded parties have not yet been established, with such interaction occurring instead in an ad hoc manner. Consistent, systemic engagement with these parties will be important to ensure legitimacy and to enhance the effectiveness of the G-20's work.

On the issue of agenda expansion, there has been suggestion that issue pluralism could divert attention from the G-20's core tasks while also further fragmenting the global development architecture. However, it was countered that while promoting global economic balance is important, so too is addressing the needs of the world's

underprivileged. The G-20's composition gives it the unique opportunity of being a powerful global actor, and that careful and measured pursuit of a development agenda can be beneficial both in generating global public goods and in fulfilling the G-20's role as a global steering committee.

While development does not occupy the same place of prominence on the agenda in Los Cabos as it did in Seoul, the Mexico Summit still provides an opportunity to move the G-20's agenda forward in a cumulative manner and build on past commitments and discussion. Articulating a sharpened development focus in line with the G-20's comparative advantages and core activities will be important, and the upcoming Summit could serve as a starting point, particularly for incorporating green growth within the development paradigm.

### **The Way Forward in Mexico and Beyond**

This century is characterized by global challenges that seem to exceed the reach of our institutions to deal with them. Yet the G-20 is predicated on a commitment of members to not only enhance global cooperation but to strengthen institutions and policies in order to contend with the challenges of our time. While the G-20 will continue to have an important role to play in addressing international financial and macroeconomic crises and concerns, it can also constructively contribute to wider global challenges, such as development and environmental sustainability.

The Mexico Summit will not serve as a forum in which to solve all of the issue confronting the G-20, nor should such be expected. Nevertheless, the meeting in Los Cabos will present the opportunity for G-20 members to undertake substantial work on important global issues, particularly if leaders are free to pursue the proposed agenda without it being subsumed by crisis concerns.

1. Written by Rachael Holt, George Washington University School of Public Health