

CRITICAL QUESTIONS

The London Summit: Can the G-20 Stop Further Economic Downturn and Protectionism?

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Q1: What are the stakes for President Barack Obama and world leaders at the London conference?

A1: Before last November's G-20 leaders meeting, I stated that trying to restructure the entire international financial system in the midst of a crisis was like calling the fire chiefs together to reorganize the fire department in the midst of a five-alarm blaze. Now almost five months later, we're still fighting a fire that has entered a different stage, spreading from the housing and financial sectors in the United States to developing economies around the world. It has caused the collapse of trade and economic growth and sparked signs of potential instability with new unemployment and protests from Latvia to China. Many government and private analyses have looked to lessons from the Great Depression and the failed 1933 London economic conference, but most have been at least a step or two behind the current crisis' pace and miss the ultimate lessons of the 1930s. Although we need urgent action on core economic challenges, we cannot lose sight of their secondary and tertiary ramifications. This includes potential security impacts like the spread of instability and nationalistic responses that ultimately sparked conflict amidst the last great global downturn in the 1930s. The U.S. director of national intelligence recently recognized that the economic crisis could be the United States' number one *national security* threat.

President Obama and his fellow world leaders approach this meeting on the global economic crisis with perhaps more at stake than at any prior G-8 or similar meeting. Not only will President Obama be confronting his top challenge, but he will be doing so at his first major event on the world stage just weeks into his presidency. Many of his key players are not yet in place, and some that are, such as Treasury Secretary Timothy Geithner, are under fire for the handling of financial rescue proposals for companies such as AIG. The administration will be looking to avoid a situation similar to that which evolved early in the Bush administration, where disputes over the Kyoto climate accord during a trip to Europe started relations on the wrong foot. Yet foreign leaders also face key political pressures that could put them at odds with the president. This includes the United Kingdom's Gordon Brown and Germany's Angela Merkel, who face pressure from upcoming elections. The United Kingdom will also have to brace for potential protests from those negatively impacted by the financial crisis and globalization. China is being looked on to play a larger international role and fund recovery efforts at the same time that many outsiders project it will fall below the 8 percent growth figure its leaders cite as needed to maintain internal stability. Overall, leaders have an incredible stake in avoiding the perception of failure or discord at the meeting that could undermine global confidence and financial markets.

Q2: Will the London summit address the key challenges we face?

A2: Many governments have been seeking to lower expectations as we head toward the London meeting, and there is a risk that the political environment and differences among key governments will drive a disconnect between the urgent, priority actions needed to address the current crisis and how the leaders will be able to address them in a one-day summit.

Coordinated actions to stimulate the global economy, such as stimulus spending or coordinated monetary actions, are near the top of current priorities. Yet differences between the United States and countries such as France and Germany have hindered progress. There still are differences in terms of the proper metrics, and even whether additional steps may be needed. Another key to reviving growth will be strengthening financial institutions, yet the U.S. plan to address banks' assets was just announced, and it is unclear if there has been enough time to develop a coordinated international approach prior. There is widespread recognition that new national and international regulatory strategies may be needed. Yet while European leaders have pushed regulation to the forefront of the agenda, many question the wisdom of prioritizing longer-term regulatory issues while we face an urgent crisis.

The G-20 also hopes to gain more traction in efforts to fight protectionism and shore up the International Monetary Fund (IMF) with additional resources to help nations struggling in this crisis. The leaders are likely to back large increases to IMF resources, a significant accomplishment, while recognizing that they will have to confront key issues in the months and years ahead regarding how to give emerging powers a greater say in this and other post-World War II institutions. On

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trade, G-20 pro-trade statements last November failed to stop new protectionist measures or revive the World Trade Organization's stalled Doha Round. It remains to be seen whether the London meeting will be able to take action that has more than symbolic value. One area of potential progress is in bolstering trade-financing assistance, which has dried up in the months since the crisis began.

The broader security and strategic ramifications of the crisis (beyond economics and trade) appear to be far from the agenda, although the troubling economic situation facing parts of Eastern Europe may change this situation. Overall, given the timeline of the summit, the most significant outcome could be if it established a firm process for addressing these issues and concrete agenda for future action at a time when some question the future of efforts such as the G-20 and G-8.

Q3: What are the critical issues to watch to determine if the summit was a success?

A3: The summit will be a one-day meeting, occurring just weeks after President Obama was sworn into office. As such, it is not surprising that governments are downplaying expectations. Although little is expected, three key factors will provide important signs regarding efforts to confront global economic challenges:

Underlying fissures among leading players. Major governments realize the severe negative consequences of a public conflict or disagreement. They will likely paper over any differences in the final official statements issued by the summit. Yet key differences of priorities and opinions have emerged prior to the summit, such as the U.S. focus on stimulus versus the French and German focus on regulation. Statements following the conference will be critical to see whether these differences were narrowed in reality. Similarly, China has been called on to play a larger role, and the precise nature of its financial or other commitments to the IMF will be watched closely. Brazil, Russia, India, and China (the BRIC countries) issued their first-ever joint statement at the G-20 finance ministers meeting. Any similar statement surrounding the London summit could be a sign of their growing influence or difference of opinion with G-8 nations. Finally, it will be key to watch how other emerging powers not normally part of the G-8 process, such as Saudi Arabia and South Korea, exert influence on the process in London and moving forward.

More than words: is there concrete action or an operational way forward? Words and grand statements by G-20 leaders mean little if there is no concrete action or operational process to get results after the summit statements are issued. Nothing illustrated this more clearly than last November's statement that G-20 nations would halt protectionist actions for a year. The commitment was almost immediately breached, and the World Bank found that 17 of the G-20 nations (85 percent) had enacted new protectionist measures. The G-20, like the G-8, lacks even a secretariat, much less an operational structure or way of following up on its statements. They typically task other organizations, such as the IMF, WTO, or Financial Stability Forum (FSF). These organizations may be ill-prepared, understaffed, or lacking in political will to rapidly address these key challenges. The future of the G-20 leaders meeting is itself in doubt, with some pushing for using an expanded G-8 as the primary forum. Without some concrete way to turn words into reality, the G-20 or other meetings are likely to be mostly pomp, circumstance, and platitudes.

Any recognition of strategic security interconnections. While the leaders heading to London are looking to avoid the mistakes of their counterparts at the 1933 London conference, they may be missing the biggest one—the interconnection of economics to broader security matters. Leaders need to make sure that while they address core economic challenges, they do not miss both the enduring strategic and security issues that may emerge and deepen as the global economic crisis spreads.

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