

POLICY BRIEFING

The EU constrained by the G20 in Los Cabos

Abstract

Largely dominated by the economic crisis in the Euro area, the G20 summit held in Los Cabos, Mexico last week provided the EU with greater financial buffers, but little peace of mind. The reinforcement of the International Monetary Fund's firewall fund — and the role of emerging economies in bolstering the fund — may have been one of the few positive results to emerge from an otherwise cautious summit. Yet the EU also faced a barrage of criticism, and ultimately agreed to involve foreign leaders in what have constituted internal matters until now. Chaired by the Mexican President Felipe Calderón, the meeting on 18-19 June placed the global economy and growth at the top of its agenda, followed by the international financial architecture and financial inclusion. Other elements that had also been included in the agenda — including the extra-economic issues of infrastructure, food security, green growth and disaster risk management — were given short shrift.

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AUTHORS:

Roberto BENDINI and Wanda TROSZCZYNSKA VAN GENDEREN
Directorate-General for External Policies of the Union
Policy Department
WIB 06 M 55
rue Wiertz 60
B-1047 Brussels

Feedback to roberto.bendini@europarl.europa.eu and wanda.troszczynska@europarl.europa.eu is welcome.

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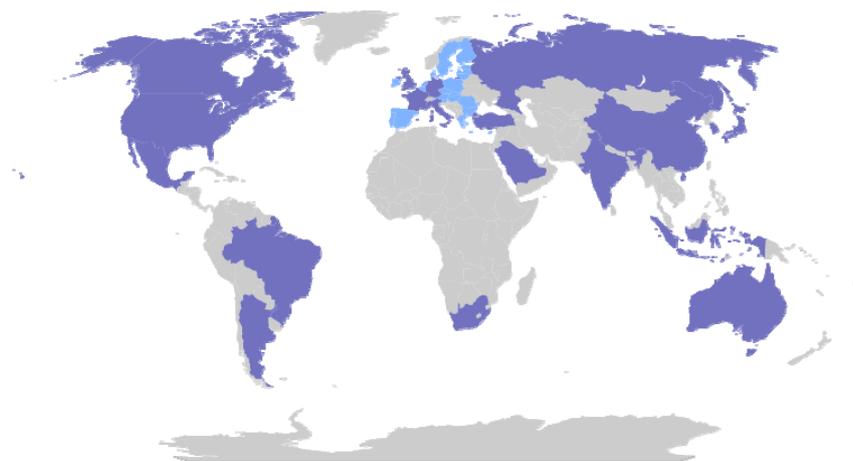
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1. EU promises

The European Union was, largely to its chagrin, the focus of last week's G20 summit held in Los Cabos, Mexico. Represented by Commission President José Barroso and Council President Herman Van Rompuy, the EU was forced to accept the inclusion of its economic and financial reform agenda in the G 20's action plan. This followed intense discussions among all the members of the group of 20 advanced and emerging economies¹. The result is an unprecedented concession for the European Union, which for the first time consulted the other major world's economic powers on its *de facto* integration process.

Figure 1:

Map of G20 members (countries in blue are represented as part of the EU rather than individually)



The result of the summit is far from satisfactory for the EU, and the final declaration includes elements that may have a strong impact on the EU's role in the world economy in years to come. This occurred despite the efforts of EU Member States to coordinate their positions and adopt a credible line of defence against the criticism from other G 20 members about the ongoing EU sovereign debt crisis.

Issues that the EU has until now limited to internal discussions were opened to the wider G 20 community.

As expected, the summit proved a pressure vat for EU leaders, and the reactions of some were far from docile. Commission President Barroso was widely in his testy defence of the European model, when he criticised 'unorthodox banking practices' in the US that had contributed to the current crisis, and a deficiency of democracy among other G 20 members².

Yet Europeans and the other participants all signed off on the final declaration, with its sometimes-stringent wording. Paragraph 11

¹ The G20 includes Argentina, Australia, Brazil, Canada, China, France, Germany, Italy, India, Indonesia, Japan, Mexico, the Republic of Korea, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the EU.

² Euractiv, 'EU at the Dock at G20 Summit', <http://www.euractiv.com/euro-finance/eu-dock-g20-summit-news-513384>.

Pressured by other members of the group, the EU has made serious commitments regarding integration.

specifies that the Euro area will 'take all necessary measures to safeguard the integrity and stability of the area, improve the functioning of financial markets and break the feedback loop between sovereigns and banks'. Euro area members are also requested to contribute to 'global stability' by undertaking 'concrete steps towards a more integrated financial architecture' (a synonym for financial integration). The final communiqué mentions three main sectors in which intervention would be fruitful: (a) banking supervision, (b) resolution and recapitalisation, and (c) deposit insurance.

The EU pledged to proceed expeditiously with structural reforms to 'strengthen competitiveness in deficit countries and to promote demand and growth in surplus countries'. This may be interpreted as an explicit invitation for Germany (and China) to revise internal policies and help world growth by supporting domestic demand, as expressly requested by the United States.

2. A changing base for the IMF firewall

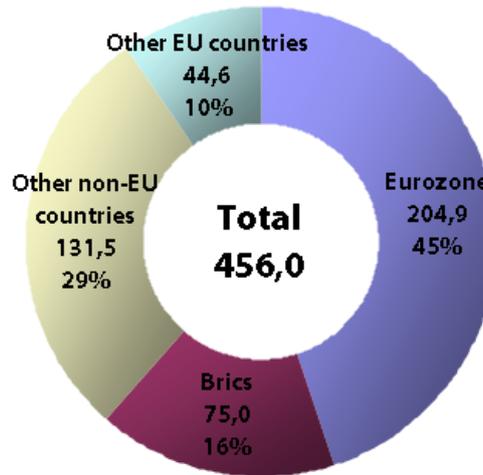
One positive outcome of the summit was the reinforcement of the International Monetary Fund's 'firewall', a fund created to shelter the world economy from Europe's debt crisis. The Washington-based institution has received commitments for USD 456 billion, more than the USD 430 billion proposed by the IMF's director Christine Lagarde in April. Contributions from emerging countries have almost doubled the institution's lending power.

This fund is intended to prevent the Euro area crisis from spreading further into other markets. Individual countries may apply to the IMF for assistance through this fund.

The IMF firewall was substantially bolstered, though without the assistance of Europe's traditional ally, the US.

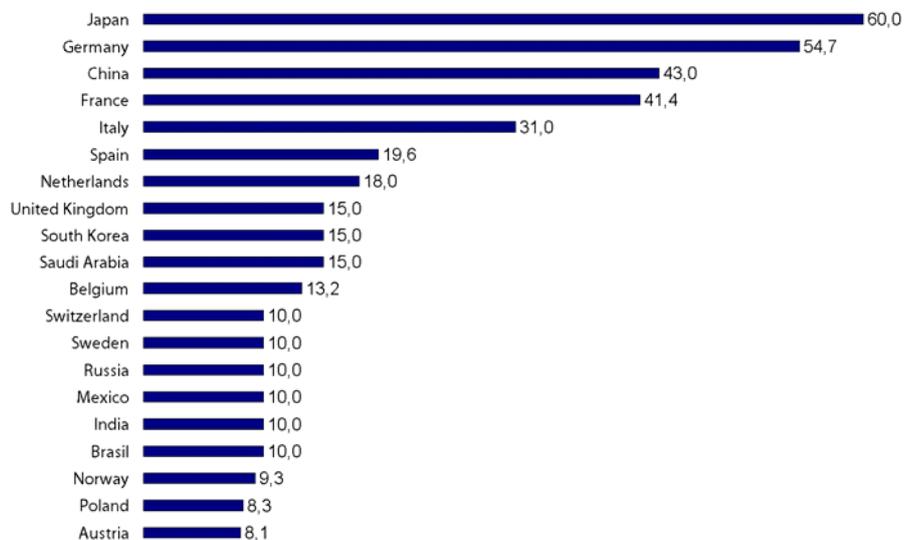
The enhancement cannot be credited to the US. The country — traditionally Europe's strongest ally — reiterated its refusal to further contribute to the rescue of the Euro area, most likely in response to internal politics: the US administration wishes to be seen as fiscally prudent in this electoral year. Yet the US position may be considered inconsistent with Washington's responsibility to the IMF.

Figure 2:
**Contributions to IMF
(in USD billions)**



China, on the other hand, played a central role in bolstering the fund, pledging USD 43 billion. The other emerging countries members of the G 20 group followed the example of Beijing and increased their contributions to the fund. These nations are increasingly worried about the negative effects that the European economic crisis may produce in their countries, and have recognised that their assistance may prevent the EU crisis from producing a devastating, global recession.

Figure 3:
**Amount pledged to IMF
per contributor
(in USD billions)**



The aid of emerging countries does not, however, come without strings. The anticipated reform of the Bretton Woods institutions (the IMF and World Bank) may be accelerated to make the two institutions reflective of the growing significance of emerging economies.

Beijing can claim credit, as well as favours in return.

This summit is largely a success for Beijing. The Chinese can now justifiably claim that China supported Europe 'in a constructive and cooperative way', particularly when compared with the prudent — not to say negative — approach adopted by the US.

3. Towing the G20 line in other economic areas

Regarding commodities prices, the G 20 maintained its attitude of diligence ('We will also remain vigilant of other commodity prices') without proposing a new mechanism to control prices or keep speculation at bay. The group expressed appreciation for Saudi Arabia's readiness to increase oil production in order to ensure adequate supply and reduce prices.

On international trade, the G 20 maintained its standing commitment to fight protectionism and reaffirmed its pledge to 'pursue fresh, credible approaches to furthering trade negotiations across the board' and conclude the Doha Round of negotiations. The final communiqué does not, however, specify how to surmount the stumbling blocks that have prevented the talks from concluding until now.

The G 20 also welcomed the commitment by China to allow 'market forces to play a larger role in determining movements in the Renminbi (RMB), continue to reform its exchange rate regime, and to increase the transparency of its exchange rate policy'.

To monitor the progress of issues contained in the final declaration, the G20 members agreed to establish the Los Cabos Accountability Assessment Framework that Accompanies the Growth and Jobs Action Plan. This is intended to become a review mechanism to evaluate advances according to data reported G20 finance ministers and central bank governors at next year's summit³.

The group maintained a familiar stance regarding commodity prices and protectionism, and instituted a review mechanism.

4. Non-economic issues given short shrift

On the margins of the summit, leaders engaged in a series of bilateral discussions, as did non-member countries, international organisations, academics and members of civil society and the business community⁴.

The final declaration mentions food security, green growth, and the fight against corruption, issues that overlap with the three priorities set by the Mexican Presidency — food security, infrastructure and inclusive green growth.

But because G20 leaders largely treated these issues orally, the final declaration does not contain significant new elements. Lacking ambition, the statement failed to translate declarations of support into

Food security, green growth and the fight against corruption were addressed orally, but only lightly in the final declaration.

³ See the full text, paragraph 19, p.3.

⁴ <http://www.g20.org/index.php/en/dialogue-with-other-actors-and-side-events>.

firm commitments with deadlines. The final declaration largely repeats earlier statements made by the preparatory 'sherpas' group⁵.

Non-governmental organisations concerned with development or climate issues expressed disappointment with the outcome of the summit, pointing to the lack of new proposals and commitments⁶.

Key political issues — including the situations in Syria and Iran — were also relegated to bilateral meetings beyond the G20 framework.

Various organisations suggested that the Rio+20 summit, which followed immediately on the heels of the G 20, would take up the development and climate agendas. Their hopes would have been largely dashed by the equally inconclusive conclusions of that summit (see *separate policy briefing on Rio+20*).

This week's European summit in Brussels represents the next likely venue to address the issues shunted to the side in Los Cabos.

5. The G 20 growing soft?

In general, despite the importance of the issues at stake, the agenda for this year's G 20 was both less ambitious and less confrontational than the one adopted last year under the French presidency of the G20.

G 20 summits have lacked a bit of punch since 2010 and have rather served to highlight persistent and growing divergences among governments, particularly on how to handle the economic crisis. The G 20 has also failed to prevent divergent levels of development creating different and even contradictory policies.

This was not the case a few years ago. During the 2008-2009 financial and economic crisis, the G 20 emerged as the leading forum for addressing major governance problems. The initiatives undertaken during the 2008 Washington and 2009 London summits effectively stemmed a dangerous economic tide, preventing the partial collapse of the US and UK banking systems from reeking further global havoc. The G 20 has also curtailed the emergence of the sort of protectionism that had exacerbated past economic crises — that of the 1930s, for example.

Past summits have sometimes attempted to move beyond the G 20's traditional economic focus. In the 2011 Cannes meeting, for example,

The G 20, once *the* forum to effect global economic change, may be losing strength.

⁵ The 'sherpas' are the representatives of the G20 member states, usually drawn from ministerial or ambassadorial ranks, who participate in a series of preparatory meetings for the G20 summits.

⁶ A compilation of the NGO reactions, including Oxfam, World Vision and ActionAid, can be retrieved on <http://www.prnewswire.com/news-releases/ngos-react-to-g20-summit-outcomes-159653735.html#>.

political discussions were embedded within the principal, multilateral discussions⁷. But this year's leaders eschewed any such expansion.

6. Looking ahead

Despite the divergences and the reticence highlighted by the summit, all participants agreed that the EU should move ahead with enhanced fiscal and political integration and develop an effective response to the instability that has affected the Euro area.

On 1 December 2012, the G20 Presidency will be passed to Russia. St Petersburg is expected to host the 2013 summit.

⁷ The full G20 2011 Summit's programme can be retrieved at <http://www.g20-g8.com/g8-g20/g20/english/news/news/programme-of-the-g20-cannes-summit.1509.html>.