On Balance, G-20 Still has a Vital Role
BY DAVID A. PARKER AND MATTHEW P. GOODMAN

The events in Syria and cancellation of President Obama’s trip to Moscow have overshadowed important business early next month in another Russian city: St. Petersburg, where heads of state and government from around the world will gather on September 5 for the annual G-20 summit. While the forum has lost some of the drama of five years ago, when leaders first came together to support a global economy in free-fall, cooperation among G-20 nations remains essential to creating the “strong, sustainable, and balanced growth” leaders promised at Pittsburgh in 2009. Far from that ideal, global growth today remains weak, uncertain, and uneven. The challenge for leaders at St. Petersburg is to pull together again to continue the hard work of strengthening and rebalancing growth over the medium term.

To be sure, there are some encouraging signs of life in the global economy: the Eurozone has crawled out of 18 months of recession; the U.S. economy continues to gain strength; “Abenomics” has turned Japan into an unexpected bright spot (at least for now); and despite recent market volatility, emerging markets and the developing world are still expected to average five percent growth this year.

But these positive trends do not mean that the damage wrought by the 2008 crisis is fully healed. European growth is still slow and internally uneven, and unemployment—particularly among young people—remains appallingly high. The United States and Japan both face the daunting challenge of continuing to support growth while simultaneously weaning themselves off unconventional monetary policy and building firmer fiscal foundations. China has clearly entered a period of slower growth, and recent currency sell-offs have added to the growth woes of other emerging markets like India and Brazil.

Moreover, ostensible signs of greater balance in the global economy may be misleading. Measured as a percentage of GDP, current accounts in many major economies have indeed fallen sharply; notably, the U.S. deficit has halved since 2007, while China’s surplus is down by nearly 80 percent from its 2008 peak. But there is reason to be concerned that much of this change reflects short-term cyclical factors rather than a permanent, structural shift.

When leaders convened four years ago in Pittsburgh, the issue was clear: export-driven economies like China and Germany had relied too heavily on foreign markets for growth, while persistent net importers such as the U.S. and many countries in the Eurozone periphery were consuming far beyond their means. Rebalancing started with the 2008 crisis itself. The collapse of household spending in deficit countries created a shock to global demand and drove a corresponding fall in net exports from surplus countries. This led to reduced current-account imbalances across the board.

The problem is that a large part of this change may only be temporary. Creating a lasting rebalance requires altering underlying patterns of growth in surplus and deficit countries; countries like China and Germany need to rely more on domestic demand, especially consumption, while the United States and other deficit countries save more and consume less. Without these structural shifts, the overall level of global demand is likely to be reduced—and global markets to be more prone to volatility.

So far evidence of the needed demand shift is at best mixed, particularly in surplus economies. In China, falling current-account surpluses have not been accompanied by a significant shift away from investment-led growth, and Chinese house-
On Balance, G-20 Still has a Vital Role (continued)

hold consumption as a share of GDP remains at about half the global average. Germany is even farther behind: its 2013 current account surplus is expected to be around six percent of GDP, down less than a quarter from its pre-crisis peak.

But outside Berlin, consensus on the need for structural rebalancing has gained ground in recent years. Significantly, China’s new leadership has cited the need to shift towards more consumption-led growth as a primary justification for the urbanization drive that is at the center of its economic reform agenda.

Meanwhile, there has also been a healthy shift in the center of gravity in the “growth versus austerity” debate in the G-20. After pushing faster fiscal consolidation at the Toronto summit in 2010, leaders in Los Cabos last year agreed on the need to prioritize jobs and the growth necessary to help repair public finances in the medium term. Moscow deserves credit for putting growth at the center of its host year agenda. Speaking at CSIS in early June, Russian G-20 Sherpa Ksenia Yudaeva underscored the continued importance of the Pittsburgh Framework of Strong, Sustainable, and Balanced Growth.

Assuming they can reach a common understanding on the nature of the challenges facing them, a key task for G-20 leaders in St. Petersburg will be to agree on concrete steps they can take collectively to move the Framework forward. One option would be to revive the moribund Mutual Assessment Process launched at Pittsburgh either through some new formal peer review mechanism or, as Mike Callaghan of Australia’s Lowy Institute has proposed, via a “mutual accountability conference” several months ahead of each summit to assess the G-20’s progress in implementing its commitments.

Leaders could also do growth a favor at St. Petersburg by pushing an aggressive trade agenda, including renewing their standstill on protectionism and insisting on concrete outcomes—at least a trade facilitation deal—at the WTO ministerial meeting in Bali in December.

The G-20 has clearly lost momentum at recent summits as the sense of crisis that brought leaders together in 2008 has dissipated. But there are plenty of risks remaining in the world economy, to both short-term growth and long-term prosperity. The G-20 is the only forum that brings together leaders representing 85 percent of global GDP to discuss and pursue collective responses to these challenges. Let us hope they take full advantage of the opportunity at St. Petersburg. ■

Matthew P. Goodman holds the Simon Chair in Political Economy at CSIS. David A. Parker is a research associate with the Simon Chair.

Global Economics Monthly is published by the Center for Strategic and International Studies (CSIS), a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions. Accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author. ©2013 by the Center for Strategic and International Studies. All rights reserved.

Simon Says...

Russia has made clear communication and a focused agenda priorities in its G-20 host year, but some signs from St. Petersburg give Simon reason to wonder what those priorities really are. For example, the logo of Russia’s G-20 presidency, while officially a tribute to the country’s long tradition of avant-garde art, evokes a heavily laden tugboat sinking into the Arctic sea—an odd choice for a summit where members hope to steer the global economy into safer waters.

Ditto Moscow’s spending priorities. The cost of hosting the events in St. Petersburg is estimated at around $300 million. By contrast, to prepare for last year’s Asia-Pacific Economic Cooperation summit on remote Russky Island off Vladivostok, Moscow poured a whopping $21 billion into the summit facilities and infrastructure in surrounding areas—including $1 billion for a bridge to not quite, but very near, nowhere. Similar amounts are being lavished on the resort town of Sochi to prepare for the 2014 Winter Olympics.

Now, as regular readers know, there is no greater fan of APEC (or the Olympics) than Simon, but given the stakes in St. Petersburg, one can’t help wondering what the Russian word for “balance” is. ■

In addition to the leaders’ summit itself, Russia has played host this year to a proliferating set of G-20 fringe groupings: the B-20 (bringing together international business executives), C-20 (civil society), L-20 (labor), T-20 (think tanks), and Y-20 (youth). Fortunately for others hoping to jump on this bandwagon, the Cyrillic alphabet has 33 letters…