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The Stage-Managed St. Petersburg Photo Op

By Martin Gilman

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In St. Petersburg last weekend, Russia hosted a meeting of leaders from the 20 largest economies in the world, the Group of 20, as well as other invited leaders and the heads of international organizations. This summit, meant to address concerns about the global economy at the highest level, where presumably some political impetus could help forge outcomes in the common interest, lacked substance — perhaps even more than the previous four. Pity the leaders once again wasting their time on an elaborate photo op.

Perhaps the G20 should consider reverting to their pre-2009 format of ministerial meetings before one leader after another starts finding convenient excuses to skip the event altogether.

With good weather, but bad timing, the gathering was eclipsed by the U.S. threat of an unsanctioned attack on Syria. The agenda for the summit, a kind of wish list of mostly sensible initiatives that were meticulously shepherded into final drafts by earnest sub-committees, was rubber-stamped by preoccupied leaders. President Vladimir Putin, as the host, worked hard to keep the focus on the formal agenda, but to little avail.

And it is not just Syria that distracted and divided the summiteers. On economic policy, supposedly its core focus, the G20 is being completely overshadowed by the U.S. Federal Reserve's much more significant Open Market Committee on Sept. 18, where the Fed is widely expected to announce whether it will begin reducing its level of quantitative easing.

There is considerable debate among economists as to whether quantitative easing has made any difference to the economic recovery in the U.S. and other advanced economies. But there is little doubt that by reducing the cost of short-term borrowing to practically zero, money surged into and drove up values in financial market assets, as investors took advantage of the cheap money to invest in high-return assets in emerging markets.

Since late May, when the Federal Reserve first started hinting about its so-called tapering intentions, the Turkish and Indonesian stock markets have dropped about 30 percent and 24 percent, respectively. Equity indices in India, China and Brazil have also recorded losses of about 10 percent since the Federal Reserve's plans became known.

Russian asset values have so far not suffered as much as those in other emerging economies, with the ruble-based MICEX equity index down about 5 percent. The ruble has dropped by 8.5 percent against the dollar since the start of the year, compared to a roughly 20 percent collapse in the exchange rates for the Brazilian real, the Indian rupee and the South African rand.

One of the reasons why Russian assets have escaped relatively lightly so far is because Russia did not attract much of that cheap money in the first place. Therefore there is less pressure to sell. In addition, Russia's economy and fiscal position is in relatively better shape than most. It has a modest current account surplus and, at the current oil price, is running a balanced budget. Most others have twin deficits this year. Russia's public debt is insignificant, and its financial reserves are the third-largest in the world. Not only have Russian standards of living not dropped as sharply as those in Brazil and Turkey, but average wages continue to grow about 9 percent annually.

Nevertheless the emerging world, including Russia, will remain vulnerable to further capital outflows as well as plunging exchange rates and equity markets so long as there is uncertainty about the direction of Federal Reserve monetary policy. Added to these concerns are the widely expected announcement of the Fed's new head, Europe and America's slow pace of consumer spending and slowing growth in China.

The G20 Summit did little to allay these concerns. It is not as if the Russian president did not try. Although gearing up slowly to the task, the Russian hosts scrambled to produce an agenda that was seen as a road map toward stimulating "economic growth and job creation."

As a result, the G20 issued the St. Petersburg Development Strategy, a four page document outlining key initiatives on global economic development. Financial stability, regulation, anti-corruption measures and tax reform coordination were emphasized. Other so-called deliverables among the group's initiatives included a G20 5th Anniversary Vision Statement and a work plan for financing investment.

All of that sounds impressive. The key question is whether a push on these worthwhile policies necessitated a summit at all.

In fact, the G20 summit in St. Petersburg should have entailed a serious discussion about the extreme turmoil affecting the global economy that has now embroiled major emerging markets. Problems affecting global stability and employment in the eurozone and Japan still fester.

The G20 has been around since 1999, created by top financial officials to involve significant new players beyond the G7. In the absence of significant reform in the International Monetary Fund and World Bank, which remain dominated by the U.S. and Europe, it was needed to introduce more legitimacy into international economic policy coordination.

Financial panic focuses political attention like no other issue. In November 2008, in the midst of financial collapse, the first G20 with national leaders met at the White House. This continued in London in April 2009 and probably helped to forestall a descent into protectionism along with restoring confidence in the management of the global economy.

Since then, with summits in Korea, France, Mexico and now St. Petersburg, a lack of pressing need, an ever widening agenda and divergent interests imply that whatever modest achievements come out of the summit could just as well been pursued by meetings at the ministerial level. In fact, the real meat from last week's summit will be chewed over at the G20 finance ministers' meeting next month in Washington.

Maybe it makes more sense to let leaders meet and revert to the earlier model of regular G20 ministerial meetings to get the job done. Perhaps new Australian Prime Minister Tony Abbott, who is taking over the G20 presidency from Putin, will live up to his reputation for straight talking and end these pious stage-managed photo ops.

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