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*Review*

# Collapse of the G-20 Summit at Cannes

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**Europe is under debt threat, facing the biggest crisis of uncertainty. One of the biggest limitations of global integration of the EU is that small and weak countries could not fall in line with strong economies. This crisis is the example in this regard. The summit at Cannes failed to give a concrete solution to the debt crisis especially in the case of Greece, Italy, Portugal, Ireland and Spain. The crisis in Greece and Italy caused the resignation of two popular Prime Ministers. The debt crisis is pushing the EU in general and Greece, Portugal, Spain, Ireland and Italy in particular into recession. Accordingly, the growth forecast is reduced to 0.5 per cent in 2012 from 1.8 per cent. This paper deals with the major issues, their impact and possible reforms.**

**Keywords:** Commodity prices; Double-dip recession; Euro-zone, Fiscal sustainability; Unemployment.

## INTRODUCTION:

The global economy that has witnessed a recovery from the world crisis has again entered into a new phase of economic weakening, and as a result, economic growth in advanced economies has come to a standstill and many economies have started witnessing a second recession especially in Europe. The debit crisis has come to the European Union because of the default in the case of Greece, Portugal, Ireland, Spain and Italy. Deed to this, the European Central bank also failed in making payment of the debt which was due to these economies. Similarly, the United States is also responsible for the European debt crisis. There was a danger of starting a second recession which could harm the global economy in general and the EU in particular. The USA has unemployment levels of an alarming nature. Accordingly, unemployment rate globally has increased enormously. The situation is very precarious as global unemployment stood at 200 million world over. These trends and situations compelled the global leaders to call the G-20 to come together at Cannes to find solutions to the most strategic issues that the world is facing in the present century.

## Role of G-20

The G-20 summit at Cannes can hardly be taken as a success. The persisting unemployment levels in developed countries along with the high degree of tension in financial markets have resulted in sovereign risks in Europe. These trends have created slowing down in growth in the emerging markets wherein commodities price swings have further resulted into growth and imbalance.

The existing grim overview of the world situation presented by the global leaders in the concluding document is being considered as a disappointment. Economies that are looking relatively inflexible may emerge as more flexible. The fact is the real extent of concessions taken from emerging economies in general and China in particular is very easy to come out with fine words but extremely difficult to transform into reality or action.

Looking at the progress in social issues particularly through the Business Summit and the Labour Summit which were held together, it is evident that no concrete commitments were extended by developing nations to counteract social dumping. The European nations are putting blame on developing economies and their social dumping for increased delocalization and outsourcing with a consequent rise in unemployment in the developed world (The Hindu, 2011).

## Greatest fear

The International Labour Organization (ILO), has issued a serious warning that a job crisis created by the slowing down and possible second recession (double dip recession) in the world economy may result into social unrest in both developed and poor economies of the world. Darkening prospects for employment, policy makers are running out of time to avoid the most dangerous 'double dip recession' that could happen in labour markets.

According to ILO report 'only 50 per cent of the 80 million jobs required to return employment to its pre-crisis levels are likely to be created over in coming two years, and that the stalling of the world recovery is already resulting into joblessness'. In a new social unrest index, there is an increasing level unhappiness over the lack of employment and anger over perceptions that the burden of the persisting crisis is not being shared fairly by the concerned economies. The most noteworthy and alarming trend is that more than 45 nations out of the 118 economies covered by the report, run the risk of social unrest, along with signs of mounting tensions in the Europe, the Middle East and marginally the Asian region.

The ILO data indicated that unemployment in the European Union that consists of 17 nations has gone up 10.5% the largest ever during the last 15 years. The biggest sufferers are the youths whose unemployment has reached an all time high figure of 29 per cent in Italy, 43 per cent in Greece and 48 per cent in Spain. The first few months of 2012 will be of paramount significance with regards to avoiding a sharp decrease in employment which can further result into an aggravation of social unrest.

Another study carried out by the Organization of Economic Cooperation and Development (OCED) has observed a marked slowdown in economic operations in the developed world especially in developed West during the last six months. The organization has suggested that the G-20 leaders should be bold enough at the summit to avoid a past repeat of the collapse that followed the Lehman Brothers bankruptcy in September 2008 (The Hindu, 2011).

## Greece Factor

Global leaders showed impatience and irritation in respect of Europe's inability to defeat its two year financial crisis as these leaders urged for a swift resolution for the sake of the world economy. With Greece's debt-ridden economy at risk of collapse, European policy makers enacted a week old rescue plan that has already witnessed signs of unraveling. The Europe is grappling with lack of confidence in markets and hence, it has become imperative for global leaders to act upon boldly.

Greece is in focal point for policy makers and investors. The present referendum which the Prime Minister has put forth for bailing out his country, the future Membership of Greece to EU depends upon on its success. Greece,whose two year bond yield topped 100 per cent, faces the 'real danger' of a disorderly default, risking a run on banks at home and abroad. Greece's place within EU could not be put in doubt. This attainment by the Greek people could not be based on a referendum. Greece has to make Euro 8 billion in bond repayments in December 2011, the first of which was due on December 19, 2011. The EU portion of the Euro 8 billion trance of aid has been signed off by the Euro-zone finance Ministers the EU bailout plan, which includes debt relief for Greece, a recapitalization of European banks and a leveraging of the block's rescue fund, the European Financial Stability Facility (EFSF) is meant to stem the two years old crisis.

## Outcome of the summit

Global leaders have failed to agree on how to strengthen the International Monetary Fund (IMF) to reverse the European debt crisis. These leaders struggled to reach concrete resolutions and the summit was completely overshadowed by Greece's political turmoil and worries about Italy. No nation out side the EU had committed any money to the region's bailout fund.

Emerging economies namely-Brazil, Russia, India, China and South Africa (BRICS) have refused to give any concrete commitments and hence, where the Euro-zone would find money to boost its bail out fund for debt-ridden nations namely- Greece, Italy and Spain (The Times Business, 2011)

The President of European Central Bank opined that recession is looming, the Euro zone may find some support from BRICS countries. European policy makers are looking beyond their boarders to more than double the spending strength of their Euro 440 billion or $ 608 billion rescue fund.

The only concrete measure to emerge from the summit is that debt-ridden Italy has agreed to position itself under trime-strial supervision of the IMF. Other than that, weary leaders admitted that the results of the meeting that brought together leaders of the globe biggest countries are meager when compared to earlier encounters marked by real sense of progress at international cooperation.

## Worthy role

Emerging new economic powers namely-China, Brazil, and South Africa would be deciding whether helping Euro-Zone is worthy investment and accordingly, these economies are quick enough to show that they would channel out their money through IMF.The European Union would now accelerate work on the guidelines of the EFSF and then call on IMF members to contribute to EFSF

The BRICS nations will contribute to Europe in line with their current voting rights at IMF. The IMF may receive a broader fillip after the UK backed an increase in the fund's $391 billion war chest to give bigger crisis fighting role. There is an urge upon the IMF to expedite a new liquidity line for countries that have strong and sound policies and fundamentals facing outside shocks. When the globe is in crisis, it is high time all considered boosting the resources of the IMF in the face of uncertainty over events in Greece. Ways and means should be found to manage the situation so that a package can be put in place as quickly as possible (The Hindu, 2011).

## Role of IMF

Emerging nations are supporting the IMF's role in restoring stability in Europe. But at the same time, the IMF must also keep in mind the liquidity need of developing nations who are not at the center of the crisis, but may nevertheless be adversely affected as innocent bystanders. Since multilateral development banks are playing an important role in mobilizing and deploying world savings, the global leaders should raise their respective levels of ambition for these institutions especially the IMF so that these agencies could play a transformational role.

The task of restoring fiscal sustainability over the medium-term calls for very different policies and progarm prescriptions. The world community must focus on structural reforms in all G-20 nations to enhance efficiency and competitiveness over the medium term.

## A Case of Greece

The feeling of confidence, which is the need of the hour, created by the Agreement made out at Brussels; Belgium on October 27, 2011 aimed at finding a solution to the Greek Debt crisis went in doldrums when the Prime Minister of Greece announced referendum on the agreement, resulting into anger and discontent in 20 global leaders.

Bourses went down with the future of the Euro once again at the heart of market nervousness. The carefully planned agenda of the G-20 Summit that announced was also turned upside down by this new situation of uncertainty. Certain most vital and strategic issues namely- regulation to curb volatility in commodities and the foreign exchange markets, development, food security, agriculture, global governance had remained un-discussed and the result is the future of the Euro and the fate of large Euro-zone countries namely- Italy and Spain with its ripple effect on economies world over (The Hindu, 2011).

The announcement of referendum resulted into a situation wherein markets rose steadily as investors realized that the danger of a total Greek default had gone down. The most likely scene now is that there will be a Government of National Unity. The centre of action moved away from Cannes is Southern France where the Summit was held and concluded.

## Recent development in Greece

The debt crisis in Greece resulted in the resignation of the Prime Minister on the one hand and on the other hand the appointment of a senior practical banker as Prime Minister of Greece so that he could charge with keeping the debt-strapped country out of bankruptcy and firmly remain the part of 17 nations EU. The most difficult task before the Prime Minister is to secure and implement the decisions of a Euro 130 billion or US $ 177 billion European debt deal agreed upon during G-20 Summit in October 2011. That deal is Greece's second massive bailout, after the first Euro 110 billion or US $ 150 billion rescue package was deemed not enough to keep Greece from bankruptcy.

## A case of Italy

After Greece the second most debt ridden country in EU is Italy which has caused uncertainty in the entire Euro-zone. The Italian borrowing costs soared way above sustainable levels and the immediate task is to restore the credit worthiness of Italy. The formidable challenge before the nation is how to cope with painful austerity measures. What is needed is to implement financial stability law wherein economic reforms are promised to be carried out by the Italian Government.

Italian Government has sold out Euro 5 billion or US $ 6.8 billion Treasury Bills of one year maturity at the biggest yield in 14 years after contagion from the debt ridden economy which has resulted into highest borrowing cost. The Rome based Treasury sold at 5 Euro billion of 1 year to yield 6.087 per cent, the biggest since September 1997 and up from 3.57 per cent at the last auction of similar maturity securities. Demand was 1.99 times the amount on offer, compared with 1.88 times in October 2011.

The most alarming impact of increase in borrowing cost is that LCH Clearnet SA demanded more collateral on nation's debt. The yield on Italy's 10 year bond yield crossed the 7 per cent level that led Greece, Portugal and Ireland to seek bailout. The 10 year yield declined marginally at 6.933 after the auction in Rome, pushing the difference with German bonds to 5.17 percentage points.

A prolonged time or 10 years bond yields in excess of 7 per cent alongside a faltering economy is a dangerous mix, and Italy's debt dynamics could result into an unsustainable and ultimately insolvent position. Italy has cash reserves amounting to Euro 35 billion and hence could prove to be a needed cushion that may allow the Treasury to skip auctions later in 2012 (The Times Business, 2011)

The most disturbing trend is that Italy can not afford to stay out of the global financial market for a long period of time. Italy's debt stood at 1.9 trillion Euros and the same is bigger than that of Greece, Spain, Portugal and Ireland combined debt. Italy faces nearly 200 billion Euros in bond maturities in 2012 and another 108 billion Euros of bills. The first bond redemption comes on February 1, 2012, when Italy mist pay back 26 billion Euros for debt sold 10 years ago. The possibility is that major risk for Italy is not necessary escalating bond yields, but rather a "buyer strike at a debt auction".

## Shadow of China

The shadow of China also looms over the Summit. The decision by the Euro-area leaders to seek outside funding for the European Financial Stability (EFSF), essentially from China, is causing serious political ripples. Opposition Socialists, several prominent right wingers as the extreme right in France and political heavyweights in Germany have denounced the move to seek Chinese help (The Hindu, 2011).

Seeking help from China is being described the attempt to ask China to back the Euro-zone's bail out fund as a 'financial Munich' i.e. an appeasement of an ever voracious China. The Europeans began wooing the Chinese almost as soon as the agreement in Brussels to boost the leverage of the EFSF from the present Euro 4440 billion to nearly Euro 1.4 trillion. But China has made it increasingly plain that its nod to forking out some Euro 70 billion to back the EFSF. Chinese investments in the EFSF are of purely commercial nature, not linked to political concessions.

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