
Jean Pisani-Ferry & Agnes Benassy-Quere: Is G20 already passe?

Jean Pisani-Ferry & Agnes Benassy-Quere / September 18, 2010, 0:01 IST

Managing a new North-South asymmetry is the new challenge for G20 members.

Since the G20 leaders first met in Washington in November 2008, much hope had been placed on this new coordination group for the global economy. The G20 summit meeting in London in April 2009 will especially go down in history as the moment when leaders from the world successfully united forces to ward off depression. But times have changed and after a rather disappointing summit meeting in Toronto last June, there are grounds to ask whether international economic coordination among G20 countries is already passé.

On the financial regulation front, there was disagreement in Toronto between those who wanted to tax the banks and those (especially the Canadian chair) who objected. Since then, the US and EU authorities have separately engaged in major financial reforms (the Dodd-Frank Act and the EU package on supervision).

At the international level, agreement has been reached on reforming the banks' regulatory capital ratios (Basel III), but it remains to be seen whether the implementation will be uniform. Moreover, Asia, which did not experience a banking crisis, does not exhibit strong regulatory zeal.

This raises the question of whether the steps taken at the national or regional level are mutually consistent, with the risk of again paving the way for international cherry-picking by financial institutions. Additionally, emerging countries have had little say on revamping the financial regulations, thereby raising the risk that some areas that are more important for them will be forgotten in the process. This applies, for instance, to the balance between home and host country regulation and to surveillance and cross-border crisis-resolution schemes for systemically-important financial institutions (SIFIs). Finally, as macroprudential regulation is being set up in several countries, the potential for cooperation between macroprudential authorities has yet to be taken on board.

On macroeconomic coordination, the Pittsburgh meeting of September 2009 set ambitious goals with the launch of the so-called "framework for strong, sustainable and balanced growth", which was supposed to coordinate global rebalancing. However, the only issue for discussion in Toronto seemed to have been the public rift between the US and Germany on the timing and pace of budgetary consolidation, as if what really mattered for the world economy were decisions taken in Washington and Berlin — not Beijing and Delhi. Meanwhile, the US-China exchange rate discussion has resumed on a bilateral basis, without delivering significant results yet, and it is becoming increasingly politicised in the US.

Today, the real asymmetry is no longer between the US and Europe but between what was once called North and South. What, then, if Europe and the US enter a phase of prolonged budgetary adjustment while the emerging world stays on course? Can emerging countries compensate for the drag on growth? Further, the advanced countries will need monetary support, while the monetary needs in the emerging and developing countries will be radically different. How will emerging countries manage the resulting capital inflows? Will fixed exchange-rate links crack under pressure? More generally, instead of managing common challenges, as in 2009, or divergences within the G7 group, as in 2010, the G20 members will now need to manage a new, lasting North-South decoupling. This will be a very new conversation for the G20, and one for which it is not prepared.

Financial safety nets offer a third example of the travails of cooperation. A shortcoming of international financial arrangements is that they do not provide insurance against sudden stops that in the last decade led several countries, notably in Asia, to accumulate foreign-exchange reserves. A few days ago, the International Monetary Fund (IMF) created a new facility, the Precautionary Credit Line. Meanwhile, however, Asian countries have increasingly relied on a multilateral system of swaps and Europe has embarked on initiatives of its own to address the crisis in the eurozone. The overall consistency and efficiency of

these schemes still need to be shown.

From the Rambouillet G5 summit onwards, 30 years of experience have shown that international policy coordination is a very demanding exercise. It is so demanding that, in fact, it rarely takes place. Most of the time “coordination” consists of forming a loose consensus while leaving policy choices to national decisions, and in addressing the crises of countries not represented at the table. What has applied to the G7 is likely to apply to the G20 — a large group of diverse countries, some of which have no habit whatsoever of submitting domestic choices to international scrutiny. The Chinese policy system, in particular, is as far as one can be from the culture of policy interdependence the Europeans are used to. India in this respect is not fundamentally different.

Engagement by the non-G7 participants in the G20 is key to avoiding international coordination sliding into G7-like empty compromises. It is still possible. And as the world economy is far from having escaped dangerous waters, it is badly needed.

Jean Pisani-Ferry is director of Bruegel, an independent European think tank working on economic policies

Agnès Bénassy-Ouéré is director of CEPII (Centre for Economic Forecast and International Information), a French research centre on international economics