

Suman Bery: Toward a robust globalisation

What are India's opportunities of participating in the G-20?

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What opportunities does participating in the G-20 offer India.

When asked about the consequences of the French Revolution, Mao Zedong famously observed that "it was too soon to tell". The same is true of the present global economic and financial crisis. It will take years, if not decades, to arrive at a consensus on the causes of the crisis, and of its larger implications. Indeed, scholars (including Ben Bernanke, the current Chairman of the US Federal Reserve, in his former avatar as an academic) still examine and debate the causes of the US Great Depression of seventy years ago.

Nonetheless, the effort at spin management, and the corresponding allocation of blame and culpability, is well under way, with the main protagonists staking out their initial positions. In a famous speech exactly four years ago*, Fed Chairman Bernanke represented the US as responding passively (and benignly) to the global "savings glut" which had developed following the East Asian crisis of 1997-98.

On this view, low global real interest rates, an important contributing factor both to rapid global growth and rising global imbalances, primarily reflected structural forces in the global economy, and called for coordinated action by both surplus and deficit countries, with perhaps a greater responsibility placed on the former group.

Even though most closely associated with Chairman Bernanke, this formulation is widely shared by respectable economists and commentators, such as Martin Wolf of the Financial Times, Professor Richard Portes of the London Business School and the Centre for Economic Policy Research, and Professor Max Corden of the University of Melbourne. The task of recycling these imbalances fell on the sophisticated financial systems of the advanced countries. In the event, for a variety of reasons, even they proved unequal to the burden placed upon them.

Not surprisingly, quite a different view is taken by the major current account surplus countries, notably China, but including Germany, Japan and, for a while, the major oil-exporting countries. Here, the finger is pointed squarely at the monetary policies followed by the US Federal Reserve under Alan Greenspan, particularly following the bursting of the dotcom bubble.

On this view sustained low real interest rates were a product of what economists call "nominal" policies, rather than reflecting underlying saving and investment behaviour in the global economy. The resulting priority for action is, therefore, in the monetary and regulatory sphere, rather than in addressing and resolving the underlying sources of global imbalances.

These different perceptions are likely fundamentally to colour the discussions taking place under the auspices of the work programme mandated by the leaders of the G-20 nations at their meeting in Washington last November. The G-20 started out life ten years ago as a Canadian-led initiative to fashion a more representative forum for discussing global economic management than the G-7 group of rich countries. In addition to the G-7 countries, it included the so-called BRIC countries (Brazil, Russia, India, China) even before this term was popularised by the investment bank Goldman Sachs. It also includes the two other large emerging markets, South Africa and Mexico (what is occasionally referred to as BRICSAM).

Until last year, G-20 meetings were at the level of Finance Ministers and Central Bank heads, with the chair rotating annually, typically alternating between developed and developing countries. The UK is the current chair. The next meeting of Finance Ministers and Central Bank heads takes place in London later this week, in preparation for the April 2 meeting of G-20 leaders in London. News over the weekend suggests that Prime Minister Manmohan Singh will have recovered sufficiently from his surgery to attend in person.

How important is the G-20 leaders' process likely to be, and how can it be used to serve India's own longer-term economic objectives? To an interested outsider like myself, there is a rather large disconnect between the gravity of the present economic situation and the sorts of hobby horses that seem to dominate the policy agenda for London.

Based on press reports, these include regulation of hedge funds and tax havens, neither of which seem particularly to be implicated in the current crisis. Meanwhile the fires that are burning, in banking systems and in international trade, seem to be being handled, largely on the basis of national imperatives and initiatives. Indeed, based on a cursory review of the official website, the link between the London Summit and the G-20 as a grouping seems somewhat loose, both in the issues being given prominence and in the attendance, which is wider than the G-20 per se.

As against these grounds for scepticism, if not cynicism, there are certain positives that can be built upon, both in the structure of the G-20 process, and in the circumstances of India's specific position.

With regard to the first, the work programme following the November leaders' meeting established four working groups, each co-chaired by a developed and developing country. India is the co-chair of the group on "enhancing sound regulation and ensuring transparency", dealing with these issues primarily at the national level. (Others deal with the reform of the IMF; of the World Bank and other multilateral development banks; and strengthening cross-border financial co-operation for oversight of financial institutions.)

With regard to the second, India is in the favourable position of being seen as an important emerging market with a sophisticated financial system, a responsible player in the global economy, with a track record of sound domestic economic management and no history of default.

The globalisation of the last two decades, both financial and real, has been productive, but fragile, with inadequate buffers and risk management devices. The challenge facing the world is to make it both fairer and more robust. India stands to gain immensely if this transformation can be achieved, and to lose immeasurably if the advanced countries retreat from the liberal order they have supported since the Second World War. The G-20 is not the perfect vehicle for India to show leadership, but it is a start. India should grasp the opportunity being given to it and run with it.

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* "The Global Saving Glut and the US Current Account Deficit". March 10 2005