

# **A Conference on India in the G20: Macroeconomic Policy Coordination, Regulation and Global Governance**

Organised by NCAER and CEPR

June 1, 2009  
Summary of Proceedings

## **The context of the conference**

NCAER and Centre for Economic Policy Research (CEPR), London, jointly organised a conference on “India in the G20: Macro policy coordination, financial sector regulation and global reforms” in New Delhi on June 1, 2009. The event was supported by a grant from the British High Commission in India.

The conference brought together economists from Europe and India to discuss the global initiatives taken till date to stymie further economic slowdown and suggest conditions for the revival of growth. The current global economic crisis has led to a range of responses by the individual countries as well as some collective international responses. The G20, at its April summit in London, had proposed a number of measures aimed at securing the reforms of the global financial system, strengthening institutions and, most importantly, preventing protectionism as a knee-jerk course of action. A fuller understanding of these proposals and alternatives is necessary not only to ensure revival of economic activity now but also to minimize the risks of recurrence of the present crisis in the future..

## **The conference goals**

The goal of the conference was to stimulate a dialogue between European and Indian researchers on G20 agenda issues in complement to official discussions that are continuing. In the inaugural session of the conference the broad context of the G20 proposals was outlined and perspectives from both developed and emerging economies articulated. There is need for a global response to deal with the current crisis and the G20 format has placed India in an important role. India’s own predicament under the crisis was recognised, as was her role in the global initiatives.

## **The global crisis, G20 and India**

India’s trade flows have declined and her investment climate has dampened under the prevailing crisis. All the same, she is credited with having expanded her economy during the present decade, and now has greater cross border trade and investment volumes. But, at the global level, India is still a ‘price taker’. This increases the importance of having a multilateral approach to global financial sector reforms rather than regional or bi-lateral takes. Even as India emerges from the crisis, she needs to actively engage with the global community to ensure durable safety for global financial systems.

At the present time, however, nothing is more important for the emerging countries than speedy restoration of economic growth. In particular, the G20 approach would need to accommodate the voice of the African nations.

So far, India has been able to maintain reasonable economic growth and it has also had ample foreign exchange reserves built up since 1991 to fall back on. However, this reservoir is qualitatively different from that of China as India has had large trade and current account deficits whereas China experienced large current account surpluses apart from capital inflows.

### **Causes of the crisis**

The high economic growth that preceded the current collapse of the markets and the steep increases in asset and commodity prices sent out signals that a cyclical downturn could be round the corner. However, when it happened, the intensity was too severe and widespread for national economies to cope with.

The global imbalances in savings and investment have generated distortions in the financial sector which in turn are responsible for the rising risks in financial intermediation. The exchange rate corrections alone would not solve the current crisis and a number of other steps would be necessary at the global level.

The Asian Financial Crisis of the 1990s led to a slump in investment spending by the affected countries and the drop in savings was relatively small. This led to the building up of surpluses. The 'self-insurance' approach advocated by the international agencies which were implemented effectively by the Asian countries affected by the crisis led to the build up of foreign exchange reserves and increased liquidity in the global financial markets. However, this approach required corresponding deficits in the western economies leading to imbalances. It is, therefore, necessary to have a global, coordinated approach to pooling international reserves and exchange rate corrections.

While improved financial regulation is necessary, it is also important to recognise that regulation comes with a cost.

### **The G20 proposals and the way forward**

Reforming international financial institutions like the IMF would have to be a priority, from the point of view of both catalysing recovery from the current crisis and also reducing the risks of such crises recurring.

The current surveillance and monitoring mechanisms have proved to be ineffective in the context. Nor did the present system rely on the IMF to learn the lessons. Authority seems to come from outside the multilateral system. Therefore, it is necessary to strengthen the international financial institutions and make them into more credible support mechanisms for the emerging economies. The governance of such institutions must be neutral.

Improved financial regulation is clearly required. Excessive leverage has taken place in both regulated and unregulated financial institutions. International financial institutions are becoming more and more complex. Over the past 15 years, the financial sector, instead of serving the real sector for which it was meant, has increasingly served itself.

It is unlikely that IMF financing would be available without conditionalities. There is a need for a conditionality that is more stable. The issues relating to protectionism are also not easy to resolve. The governance reforms in the international financial system would remain a formidable challenge.

### **Speakers at the conference**

The conference was attended by distinguished economists and officials from Europe and India. Dr Vijay Kelkar, Chairman, Thirteenth Finance Commission, chaired the inaugural session. Dr Rakesh Mohan, Deputy Governor, Reserve Bank of India, delivered a luncheon address on the role of financial regulation in minimising the financial market risks. The panel discussion at the end of the conference was chaired by Mr Montek Singh Ahluwalia, Deputy Chairman, Planning Commission.

The sessions of the conference were chaired by Dr Arvind Virmani, Chief Economic Adviser, Ministry of Finance, Government of India; Prof. Dilip Nachane, Director, Indira Gandhi Institute of Development Research (IGIDR) and Dr Shankar Acharya, former Chief Economic Adviser, Ministry of Finance, Government of India.

The European participants included Dr Richard Portes, Professor of Economics at the London Business School, who is also President of CEPR; Dr David Vines, Professor, Oxford University; Dr Javier Suarez, Professor of Finance with Centre for Monetary and Financial Studies, Madrid and a member of CEPR, and, Dr Stijn Claessens, Professor of International Finance Policy, University of Amsterdam, who is also a CEPR member and an Assistant Director with the IMF.

The paper presenters and discussants included Dr Ashima Goyal, Professor of Economics, IGIDR, Mumbai; Dr Pami Dua, Professor of Economics, Delhi School of Economics; Mr A.K. Bhattacharya, Managing Director, Business Standard; Dr Saumitra Choudhury, Member, Prime Minister's Council of Economic Advisers; Dr Amar Bhattacharya, Director, G24; Dr Alok Sheel, Joint Secretary, Ministry of Finance, Government of India; Dr Surjit Bhalla, Managing Director, Oxus Research and Investments and Subir Gokarn, Chief Economist, CRISIL.

Mr Suman Bery, Director-General, NCAER and Professor Richard Portes, President, CEPR, coordinated the conference proceedings. Mr. Creon Butler, Deputy High Commissioner, British High Commission, New Delhi, Prof. Dilip Nachane, Mr. Suman Bery and Prof. Richard Portes took part as panelists in the final session of the conference.