

Can G-20 Leaders Coordinate Global Growth?

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Summary

- Not one but two imbalances
- Cyclical imbalance: Capital flow problem for emerging markets
- Structural imbalance: Re-emergence of global current account surpluses and deficits
- Cyclical: Important roles for the IMF and G-20 but requires repudiating the “foreign finance fetish”
- Structural: Chinese exchange rate key and can only be addressed as a multilateral trade issue not a macro/global imbalance issue. Beyond IMF

Cyclical Imbalance

- Extraordinarily loose monetary policies in US, UK, and EU (push factor) → Dollar carry trade
 - Resurgence of capital flows to emerging markets
 - Pressures on asset prices and exchange rates in emerging markets
- Push factor likely to persist (Fed: interest rate tightening unlikely for “extended period”)

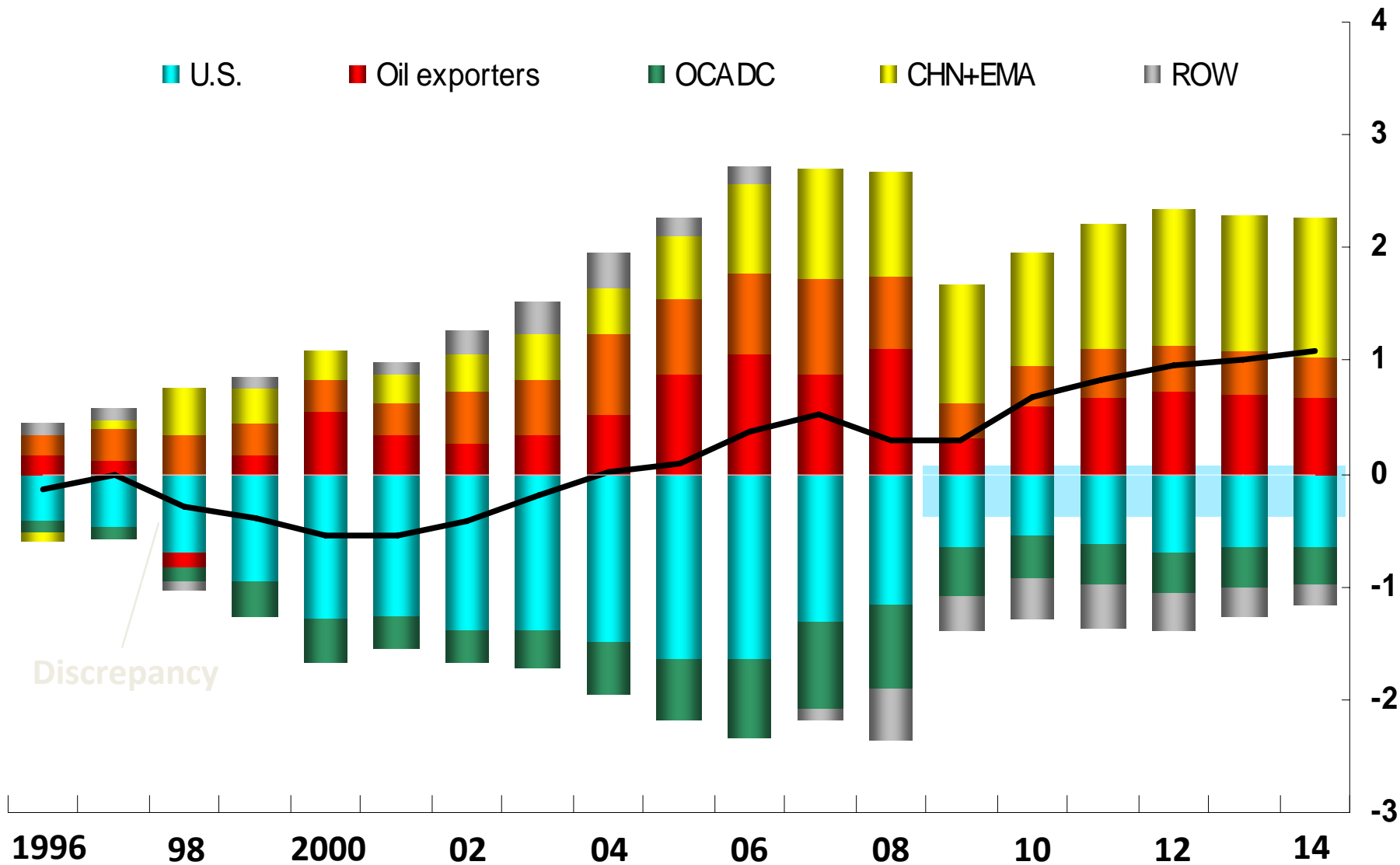
Cyclical Imbalance: Policy Response

- Should policy arsenal of macroprudential measures include capital account restrictions?
 - Especially if China's exchange rate stance endures
- IMF's Dominique Strauss-Kahn: *"the IMF would not recommend them as a standard prescription either -- as they carried costs and were usually ineffective."*
- Opportunity for the IMF
 - Intellectual: Macroprudential design issues
 - Ideological: Stigma issue
- Can IMF help repudiate the Foreign Finance Fetish?
- Should policy arsenal include coordinated capital account restrictions blessed by G-7?

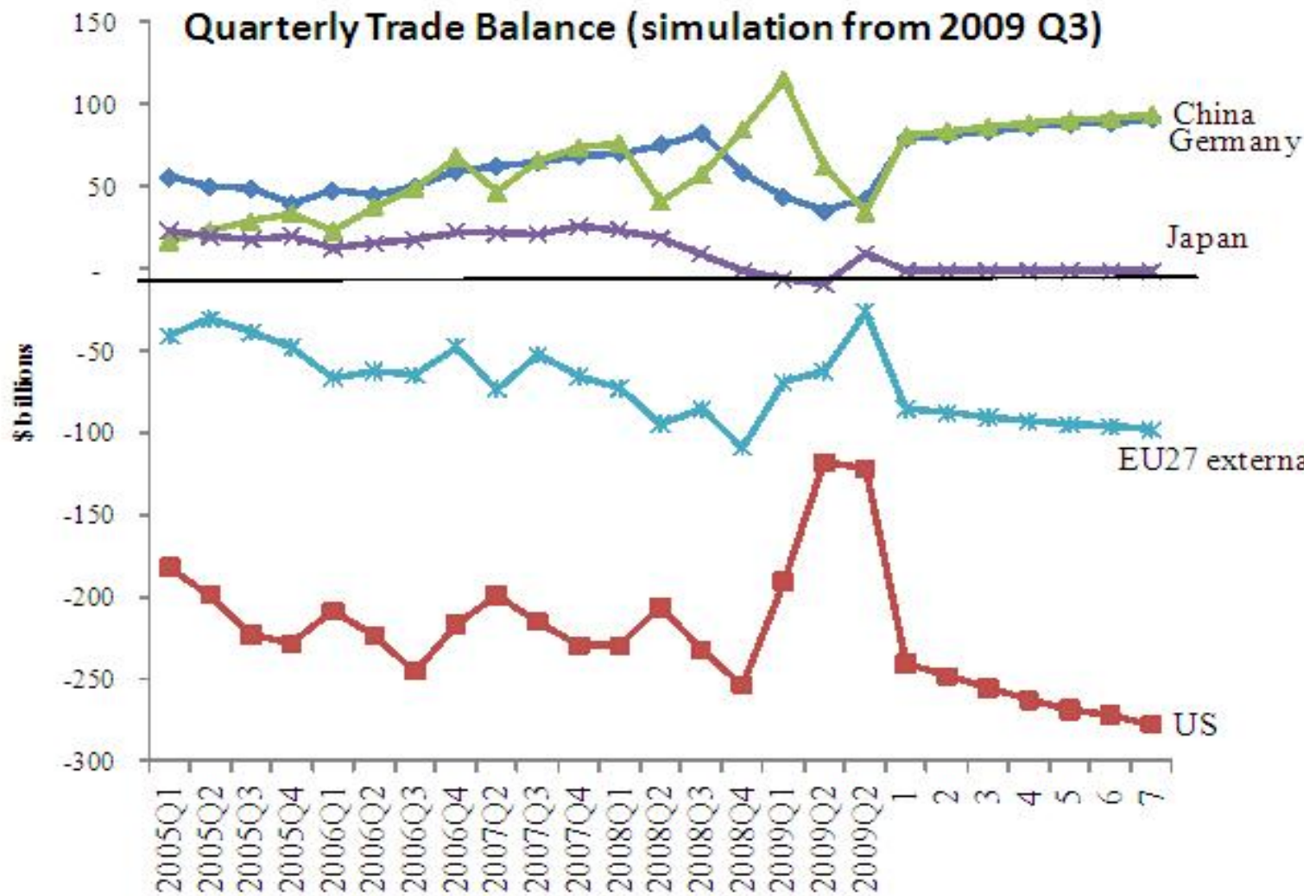
Structural Imbalance

- There has been a correction in global imbalances both in US and China. But ...
- Is the correction in global imbalances permanent or temporary?
- IMF projection seems optimistic
 - oil price assumptions might be low
 - correction a consequence of trade collapse and will be reversed (Baldwin and Taglioni, 2009; also Cline, 2009)
 - China's exchange rate has *depreciated*

IMF's Global Imbalance Projections (% of GDP)



¹OCADC: Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Turkey, and United Kingdom.



Source: Baldwin and Taglioni, 2009

Structural Imbalance: Policy Response

- China's exchange rate policy key element of structural imbalance
- IMF has neither leverage nor legitimacy to persuade China to adjust its currency (Mattoo and Subramanian, 2009)
- Perhaps China is “beyond” outside influence: “Chimerica”
- The only chance is make the Chinese exchange rate:
 - A trade issue rather than a macro-imbalance issue
 - An issue that affects the competitiveness of other emerging markets and developing countries and not just a US-China or US-EU issue
- The implicit political economy assumption is that:
 - The only leverage vis-à-vis China is trade
 - The only leverage is from pressure exerted by a wider constituency of countries beyond US and EU
- In other words, little role for IMF and greater role for G-20 and WTO