Talk 1: October 9 at 11:30am, Andrew Hughes Hallett

Emerging Market Economies and the G20: a view from the literature

This talk is about coordination. The main concerns of emerging market economies, in the G20 context, are exchange rate instability, rapid capital inflows and sudden capital reversals, market access, and competitiveness (real or nominal). Any serious analysis of the emerging market economy's perspective on G20 policy problem must therefore take into account imbalances on the current account (the rest of the G20 vs. emerging markets – trade and growth issues), and on the portfolio balance (rest of G20 vs. emerging markets – FDI and financing issues), and any interactions between them. This allows us to examine if existing combinations of imbalances in trade and net foreign liabilities are sustainable; or whether policy interventions are needed to rebalance those accounts and, if so, how those interventions might need to be coordinated between the emerging markets and rest of the G20. In particular, a model of such interventions will necessarily focus on trade competitiveness (real exchange rates), relative rates of return on assets, capital financing flows and asset preferences. Fortunately, the literature supplies such a model which permits us to examine the conditions for sustainable imbalances, whether they are likely to be realized; and how the underlying macro-policies need to be coordinated to achieve the exchange rate, capital flow and competitiveness outcomes we need. We find that we typically face both "good" and "bad" equilibria (much discussed now in the European context). So policy should probably be a combination of limits (on exchange rate movements, capital controls) to rule out bad equilibria and conventional coordinated policies to reach the good outcomes. This process is enhanced if current account sensitivity can be increased, and portfolio balance sensitivities decreased. There is also a distinction to be made between emerging markets with current account surpluses and accumulating foreign assets, and developing economies with trade deficits and accumulating liabilities (FDI).