Concept Note

Global Economic Cooperation: Views from G20 Countries

ICRIER, October 7-9, 2012

New Delhi

Since the unfolding of the 2008 global financial crisis, the G20 has played a major role in coordinating macroeconomic policies to revive the world economy. As the premier forum for international cooperation on the most important aspects of the international economic and financial agenda, it brings together the world's major advanced and emerging economies. The objective of the G20 is policy coordination among its members in order to strengthen financial regulations, reduce systemic risks, prevent future financial crises, reform the prevailing international financial architecture, and achieve global economic stability and sustainable growth using, as a basis, nine clearly identified development pillars.

With this backdrop, since 2009 ICRIER has been organizing an annual conference bringing together academics and key policy makers from G20 member countries to deliberate on a range of pressing issues. The previous three ICRIER conferences in this series, each which was held prior to the Toronto, Seoul and Cannes G20 summits, had deliberated on the then G20 agenda. Succinct summaries of these conferences, published on the ICRIER website and also widely circulated, served as inputs to policy makers participating in the summits. The summary of the third G20 conference, held on September 13-14, 2011, is attached for your reference.

This year ICRIER will host its 4th G20 conference on October 7-9, 2012 at New Delhi.

Since the outbreak of the Greek crisis, and looming of Euro zone banking as well as sovereign debt crises, the focus of the G20 has shifted back to addressing short run issues. The imminent risks for advanced economies include financial fragility, excessive sovereign debt, weak growth and high unemployment. Emerging economies remain vulnerable in an uncertain environment as de-leveraging by global banks and the 'search for yield' exerts pressures on them. Will emerging markets be large enough to support growth in advanced economies in the next 10 years? A key question therefore is the relevance of the G-20 agenda to emerging market economies.

In tandem with these issues and concerns, ICRIER's 4th G20 conference will be structured around the following themes:

October 7, 2012 (Sunday)

18:00-19:00 ***Inaugural Lecture***

19:00-21:00 ***Welcome Dinner***

October 8, 2012 (Monday), Gulmohar Hall, India Habitat Centre

9:00-9:30: ***Registration***

9:30-11:00: **Inaugural Session**

11:00-11:15: *Tea/Coffee Break*

11:15-13:00: **Session 1: The Eurozone Crisis: Short-Run Challenges and Options**

The global economy is recovering but remains fragile. The Euro crisis looms as a major threat to global recovery since 2011, though, coordinated implementation of bank liquidity support, capital regulation in the Euro area and well guided national policies—especially fiscal restraint—at the national level has helped moderate the crisis. In the new Basel III regulatory environment, the pressure is on Euro area banks to meet new capital standards even when growth is weak and repayment requirements are high. With this backdrop, this session would address the means of ensuring inevitable bank de-leveraging without leading to excessive 'credit squeeze' that could hurt employment and economic growth both in advanced economies, in particular, the Euro area, as well as in emerging markets. In terms of fiscal policy, nowhere is the tension starker between the short run and the medium run. In terms of the sovereign debt crisis, the issues to be addressed include ensuring short term credibility while maintaining long term commitments to austerity, and ways to achieve better fiscal coordination and risk sharing among Euro area countries in the medium to long run. Other important issues will also be discussed such as dealing with internal imbalances, the appropriate monetary-fiscal mix to kick-start employment and growth in the Euro area, and understanding whether unlimited liquidity is a solution to the banking capitalization crisis.

13:00-14:00: *Lunch*

14:00-15:45: **Session 2: Global Imbalances and their Consequences: Past, Present and Future**

One issue that received a lot of attention in the global rebalancing debate is the importance of flexible exchange rate in rebalancing the surplus economies. However, it is now recognized that reprioritising domestic policies and reducing domestic distortions are key to rebalancing in an interconnected world. But global imbalances are dynamic: though the source of excessive global deficit remains the same largely, the sources of surplus now are oil exporting countries - more than manufacturing intensive exporting economies. The changing nature of imbalances—trade surpluses vs. petrodollars—would have serious implications on the reserves and capital flows. Hence, this session will discuss the need for a forward-looking perspective for addressing global imbalances. This session will also discuss the extent of rebalancing already achieved, and the possible options for reprioritising domestic structural policies of advanced and emerging economies to further boost global growth.

15:45-16:00: *Tea/Coffee Break*

16:00-17:45: **Session 3: Financial Regulatory Reforms: Not far enough or Overkill?**

Financial sector regulation has been at the heart of G20 initiatives from the first Leaders' Summit. The G20 succeeded in agreeing on Basel III capital, leverage and liquidity standards, expanding the regulatory perimeter to include systemically important financial institutions (SIFIs), macro-prudential tools, and the regulation of the shadow banking system. The reforms triggered a debate: were the reforms too little or too much? This session would discuss how to reform the financial sector without stifling it; the likely implication of these regulatory initiatives on the global banking system, especially the possible 'credit squeeze' triggered by coordinated de-leveraging; how do countries co-ordinate financial regulation across countries; and is it reasonable to have co-ordination when economies are in such different states?

October 9, 2012 (Tuesday), Gulmohar Hall, India Habitat Centre

9:30-11:15: **Session 4: Reforming the International Monetary System: The Need for a New Framework**

The G20 agenda in reforming the international monetary system (IMS) includes managing global reserve currencies, excessive capital flows and volatility, and the global financial safety net. The G20 made little progress on developing a comprehensive multilateral framework for reforming the IMS. This session would discuss the inter-linkages between managing reserve currencies and excessive capital flows, the unfair advantages for reserve issuing countries in this current IMS, the role of macro-prudential policies in mitigating the deleterious effects of volatile capital flows, and the need for dialogue between recipients and source countries as both quantitative easing and capital controls would affect all actors in the global economy.

11:15-11:30: *Tea/Coffee Break*

11:30- 13:15: **Session 5: A Macroeconomic Policy Agenda for Emerging Economies: What Does Research Tell Us?**

There are several issues within the G20 that are relevant to emerging markets. There is renewed interest in international policy coordination arising from imbalances between savings (current account surpluses) and borrowing (current account deficits). What does research tell us about the welfare gains from G20 policy coordination and how therefore much international coordination is necessary? While the contribution of emerging countries to the global stimulus has been remarkable, will emerging markets be large enough to support growth in developed countries in the future? Other issues such as what tools should capital account management consider, what will be the effects of quantitative easing in advanced economies on capital flows to emerging markets, and what is the role of fiscal and monetary policy as a stabilization tool in emerging markets, will be discussed in this session. This session will also provide a methodological discussion on whether there is an appropriate framework to think about macroeconomic policy in emerging markets.

13:15-14:30: *Lunch*

14:30-16:00: **Session 6: Austerity, Growth and Public Policy**

Everyone wants growth, but where are the resources. With a focus on fiscal policy, this session will have two objectives: first, to re-visit the austerity versus growth debate in light of the US, Euro-zone, and emerging market experiences in the post financial crisis period; and second, since infrastructure spending is typically cut in fiscal austerity programs, what does austerity imply for long run growth in national economies. An emerging consensus on fiscal policy appears to be that while expansionary polices are useful in the short run, countries must fiscally consolidate in the medium run. In terms of the austerity versus growth debate, an open research question is whether there are conditions under which contractionary fiscal policy can be expansionary, or non-Keynesian? The debate on this is deeply divided. Other aspects of this debate suggest that a fiscal stimulus should rely more on measures that affect inter-temporal incentives, and rely less on broad tax cuts and increases in transfers and government purchases. Further, if short run stabilization is not the exclusive domain of monetary policy, what fiscal tools are required for short run stabilization? And should we be trying to find the multiplier? In terms of the infrastructure and growth literature, if infrastructure spending is cut to meet fiscal austerity goals, what does this imply for long run growth? Can a reduction in debt be welfare enhancing? This session will re-visit these themes.