TAKING ACTION AT THE SEOUL G-20 SUMMIT

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Framing the Issue

Dire warnings of an impending currency war are now widespread. As the global imbalances between the U.S. and China continue, they threaten to disrupt the Seoul G-20 Summit in November. In an atmosphere of rhetorical clashes and doubts of the benefits of co-operation, G-20 countries have been adopting unilateral measures to cope with vulnerabilities arising from large and volatile capital flows, misalignments in exchange rates and perceived price distortions in trade.

Policy Considerations

The inability of finance ministers and central bankers to agree on a path forward for global recovery and rebalancing during the IMF and World Bank annual meetings coupled with the intensifying "global clash over the economy" (*Financial Times*, October 12, 2010) has increased the pressure on G-20 leaders to address these tough challenges. In Seoul, G-20 leaders have a collective responsibility to agree on a policy package for global rebalancing, financial regulatory restructuring and international institutional reform so to calm the overheated rhetoric and set the course for a steady and entrenched global recovery. However, the recent decisions and agreements made by G-20 finance ministers during their October meeting in Gyeongju show that there is hope for progress.

The global imbalances issue is much broader than fiscal deficits in the United States and exchange rate undervaluation in China; other countries run sizeable deficits and accumulate excessive reserves. Concerted consumption growth in all surplus countries and cautious demand management in all G-20 deficit countries will be needed, not just in the U.S. and China. The agreement by finance ministers in Gyeongju to monitor and limit current account imbalances of all deficit and surplus countries is a step in the right direction. But global imbalances are about more than macroeconomic rebalancing of external deficits and surpluses, and of savings and consumption; structural reforms, investments in human capital, promotion of

R&D and technological and organizational innovations are also necessary.

Actions Items for the G-20

1. The long-standing global imbalances are deeply entrenched in the structures of major economies. Fixing them requires time for policies to adjust and for their impact to be felt in the real economy. At the Seoul Summit, G-20 leaders need to reinforce and sharpen the framework adopted by the finance ministers in Gyeongju by aiming for quantitative targets of surpluses and deficits. Beyond Seoul, there will be a need for G-20 countries and others to maintain a continuous focus on this problem, to press ahead with macroeconomic and structural policy reforms and to monitor their effects over a number of years into the future.

2. G-20 fiscal and monetary policy actions do not have to be identical, but they must be coherent and complementary when seen as a whole. The myth that policy coordination means everyone doing the same thing at the same time is getting in the way of everyone doing the right thing in the context of the global economy over the medium term.

3. International institutions, especially the IMF, must play an independent and vigorous role in providing the rigorous analysis and synthesis of the economic trajectories of countries and develop coherent policy options for the G-20 global rebalancing exercise. In assessing country trends and policies, the IMF must be seen as scrupulously fair to all participants and cannot cave to pressures from the more powerful governments. The policy harmonization role of the IMF for the future is as important as its lending and financing role has been in the past.

4. The new G-20 peer review of country policies, based on G-20 country economic submissions and IMF analyses, is crucial to the process of reconciliation and rebalancing. But the new surveillance process will be only as effective as governments want it to be. Governments will have to devise policies that are sensitive to the global economic linkages and will have to be transparent and responsive to feedback. The ultimate responsibility for the effectiveness of the G-20 peer review of macroeconomic policy management rests with the G-20 governments themselves.

5. G-20 summits should focus on concrete, credible outcomes that affect the jobs and livelihoods of people in their day-to-day lives so to address the current underlying public anxieties. Simple, direct communications need to link the often-complex G-20 policy actions to the practical concerns of people.

6. There is no substitute for getting the policies right. As important as communications and clear "messaging" are to global leadership and successful summitry, policy should drive the message, not the reverse. Cynicism, rather than trust, will be the result if grand words of action and cooperation at Seoul are then followed up with half-hearted steps or beggar-thy-neighbor policies.

7. G-20 leaders must make strong commitments to the Basel III accords on financial regulatory reform being put before them in Seoul. This is a critical element in the overall effort to create policies and institutions that can manage the global financial system and economy in a more steady, stable and responsible manner.

8. G-20 leaders need to broaden and deepen the governance reform process in the international institutions. Without buttressing the IMF's mandate, leadership selection, chairs and shares issues, the IMF cannot take on the ambitious role it needs to play in the global rebalancing effort and in national and global financial reforms. The decision taken by finance ministers at Gyeongju to increase the shares and votes of emerging market economies in the IMF and to reduce the number of European chairs at the IMF Board in favor of developing countries represents significant progress. But without reforming and streamlining the chaotic system of multilateral development agencies, aid money will continue to be wasted and unnecessary burdens placed on recipient countries. In Seoul, G-20 leaders should set up a high-level commission to review the multilateral development system and to devise strong recommendations for its reform.