



Subir Gokarn: The search for global confluence

The G-20 summit needs to push for convergence of positions on three global public goods

Subir Gokarn | New Delhi September 21, 2009 Last Updated at 00:25 IST

The G-20 summit needs to push for convergence of positions on three global public goods, says *Subir Gokarn*

At first glance, Pittsburgh, PA seems like an unusual choice for a major gathering of global leaders. But, its geography and history accurately reflect the objectives of the G-20 summit that will take place there over two days later this week. One, the city centre straddles a major confluence, with two rivers converging to form a third, larger one, the Ohio. In many senses, the G-20 process is an attempt to find a confluence among a disparate group of countries. Rich vs poor, big vs small, north vs south, east vs west — every possible dividing line on the globe is visible within the group.

Also, Pittsburgh was once the hub of the American steel industry, which declined into obsolescence three decades ago, threatening to take the city down with it. But, it managed to re-invent itself pretty successfully, emerging as a diversified regional services centre. The G-20 is also an attempt to re-invent the global order, with a meaningful and substantial shift in the role of emerging economies on the global stage. Unusual, perhaps but, metaphorically speaking, it may have been an inspired choice.

Of course, the location provides no guarantees of any significant progress during the two-day meeting. While the G-20 framework has been in place for around a decade, it seemed to be a largely dormant group, which was rather abruptly resuscitated last November when the global economy was on the brink of disaster. One could argue that the meeting in Washington DC laid the foundation for a shared global perception of the severity of the crisis and, consequently, a synchronised set of policy responses to it. Of course, the Washington declaration also identified a number of long-term issues, but dealing with the crisis was obviously the immediate preoccupation.

Now that the crisis appears to have been abated and the global economy is showing unmistakable signs of stabilisation, the group is obliged to turn its attention to those long-term issues. There are, essentially, three “global public goods” that require its attention. One is directly related to the precipitation of the recent crisis, but the other two are issues that pose threats even if the crisis had not occurred.

The first issue, which received much attention during the Washington summit and in subsequent forums, is the movement towards a global financial regulatory framework. There is virtual unanimity on the extreme inadequacy of the existing system, in which a wide variety of disparate national regulatory agencies tries to monitor a set of global financial services companies. Global portfolios clearly call for some degree of global risk mitigation mechanisms. But, since not all markets are equal in terms of both sophistication and regulatory capacity, how exactly this is going to be implemented remains fuzzy.

A standard could, of course, be set, giving emerging economies some time to converge to it. In many emerging economies, however, domestic financial markets have developed in an uneven fashion and are, typically, subordinated to a larger policy objective. Compliance with a uniform global regulatory approach, particularly one which emerges from the kinds of risks and moral hazard problems that led to the recent crisis in the more developed markets, will have to be thought through carefully. There will possibly be areas in which a uniform global standard will be both feasible and beneficial to emerging economies, but equally likely, there will be ones which will be costly to implement and contrary to policy objectives.

One issue in the former category is transparency and disclosure. Moving towards a global standard of disclosure by companies, particularly financial companies whose balance sheets are driven by market movements is both desirable and practical. Even if full convergence takes time, a gradual increase in the transparency of exposures across countries and asset classes for large financial institutions will serve the interests of both regulators and investors. But, for issues in the latter category, domestic compulsions will obviously take precedence. Ceilings on compensation, capital controls, size restrictions on financial companies — all of these are hardly likely to find global consensus soon, if ever.

The second global public good that the G-20 will need to get to grips with is climate change. Having reached a broad consensus on the severity of the problem and the absolute necessity for immediate action to reverse course, the next step is proving to be enormously difficult. Should emissions history be the basis of future responsibility or should countries likely to contribute to global warming most in the future bear the heaviest burden of emissions reduction?

This is clearly a matter of principle that may never be resolved, but meanwhile, the risk of stalemate and inadequate response looms. There is a high-level meeting dedicated to this issue scheduled for December in Copenhagen; some indications of agreement on principles from the Pittsburgh meeting are important for the success of that event.

The third global public good is the multilateral trade system. The issues in this item are related to the crisis in the sense that increased protectionism has been seen by interest groups in many countries as a way to supplement monetary and fiscal policies in bringing about a recovery. Protectionism is a less salient threat now than it was a few months ago, but the fact that it is even being considered undermines the foundations of the trade framework.

The World Trade Organisation was an institutionalisation of the balance between adherence to a rule-based system and the sovereign right to protect domestic interests. The fact that it is finding it rather difficult to achieve closure on the Doha round should not detract from all that has been achieved before. The principle of “no going back even if no movement forward” needs to be asserted by the global leaders, even in the face of aggressive domestic constituencies which will resist taking the protectionist option off the table.

There is an intrinsic trade-off in designing collective decision-making processes. Consensus is easier to reach in small, relatively homogeneous groups, but this may not be representative of the views of large, excluded groups. The merit of the G-20 process is that it is small enough to be efficient but heterogeneous enough to be representative. Each of the three global public goods described above requires a significant convergence of views within this very differentiated set of countries. As difficult as this appears, we must remember that the consequences of not doing so could be catastrophic — in the short, medium and long term.

The author is Chief Economist, Standard & Poor's Asia-Pacific. Views are personal