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The G20 turns ten: what's past is prologue

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Executive summary

THE FIRST G20 leaders' summit was held in Washington DC in November 2008. This Policy Contribution assesses the performance of this informal but influential institution since then to understand what could lie ahead. We focus on the coordination of national economic policies as this has been at the core of the G20 leaders' agenda throughout the decade.

THE G20 LEADERS created a supportive political environment for strong national and global actions soon after they first met. This prevented a global depression but was followed by an uneven recovery. The leaders early on called for enhanced coordination of macroeconomic policies. This was clearly an ambitious undertaking given the limited success of earlier coordination efforts within the more homogeneous G7. Even after ten years such coordination remains a work in progress. The G20's emerging and developing economy members, with the exception of China, have remained cautious in their engagement on macro policies. This caution might reflect emerging and developing economies' discomfort at the obligations that could arise if they come to be considered systemically important despite lower levels of income, wealth and institutional capacity. Habits of cooperation among the newcomers are also less developed than within the G7. Coordination between the G7 members is reinforced by the G7 continuing to hold its own leaders' meetings separate from the G20.

WHILE EMERGING AND developing economies are catching up with advanced economies in their contribution to real output and merchandise trade, the picture is very different where cross-border finance is concerned. Transactions on capital account are dominated by the advanced economies. Despite a shared concern for global financial stability, this asymmetry makes for different priorities in the reform of global finance. The G20's emerging and developing economy members seek to insulate their less open and more vulnerable financial systems from shocks arising from policy measures taken by the advanced economies, and to make global liquidity less dependent on the US dollar. The leaders' summit from 30 November to 1 December 2018 in Buenos Aires (concluding the Argentine G20 Presidency) and the summit to follow in Osaka in June 2019 (hosted by Japan) both provide opportunities for European G20 members to provide political leadership on this financial reform agenda, and on the important but hitherto neglected area of trade.

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1 Fissures and fractures

The G20 first met at the leaders' level in Washington DC in 2008 at a moment of deep crisis. Today's context differs in three important ways. A broad-based cyclical recovery in the global economy provides an opportunity for the G20 to move beyond fire-fighting to deeper structural reform: 'winning the peace' in the words of Buti (2016). At the same time, the political context has evolved in each of the 'big three' G20 participants (the US, the EU and China) and increasingly in the dynamics between them. The Trump administration is engaged in a big shift in the goals and style of the US's international engagement, with a preference for bilateral negotiations over multilateral approaches. Recent US economic initiatives, particularly in trade, and also its positions on combating climate change, have created deep divisions within the G7. In Europe the political impact of a fast-approaching Brexit, the German and French elections of 2017 and the Italian elections of 2018 provide a changed context for addressing international economic issues.

The third big global player, China, has also become more forthright in its own aspirations for shaping the global economic order, most obviously through its Belt and Road Initiative (BRI). Over the past decade, China has also become by far the dominant member of the BRICS grouping (Brazil, Russia, India, China and South Africa), whose cohesion and relevance has been severely strained by weak economic performance in Brazil, South Africa and Russia. Relations between China and India (the world's second and third largest economies in real terms) have faced both economic and political strain given China's overwhelming bilateral trade surplus with India and competition between the two in the countries of South Asia.

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For all these reasons, the time is right to take a fresh look at the G20 leaders' effectiveness as the leading forum for guiding the global economy. We are particularly interested in two issues for the G20's future:

- What more can the G20 leaders do to meet their paramount goal of fostering sustained, high-quality global growth given experience in the last decade and the changing global environment?
- With diminished cohesion within both the G7 and BRICS groupings, can an issue-based 'variable geometry' of *ad-hoc* coalitions articulate a path ahead, given widening policy differences between the G20 members? What role should Europe play in forging such coalitions and in strengthening the machinery of G20 interaction?

We review the record of the G20 in coordinating the economic policies of its members: primarily monetary and fiscal policies, but also financial stability and trade[1]. We follow the International Monetary Fund in classifying G20 member countries into two groups: 'Advanced Economies' (AEs) and 'Emerging and Developing Economies' (EDEs). This classification has remained unchanged since 1998 despite considerable shifts in real per-capita output over the last twenty years[2]. Both Russia and Saudi Arabia are included in the EDE group. It is the addition of the EDE countries that differentiates the G20 from the G7, and we look at the G20 from their perspective. Since 2008, several EDE members have held the Presidency of the G20: Mexico, Turkey, China and the chair at time of writing, Argentina. Their choice of agenda, and commentary by their scholars (though far less copious than that generated for the advanced economies), provide us with an opportunity to understand the priorities and performance of the G20 as these countries see them.

There is a deeper justification for bringing the EDEs closer to centre-stage. The G20 first

1 There is an extensive literature on G20 summits, and we also base our assessment on background conversations with observers and participants and the work of the G20 centre at the University of Toronto, which tracks the G20's evolving priorities: http://www.g20.utoronto.ca/.

2 The least affluent member of the AE group in 2017 was Italy (a member of both the G7 and of the EU) with GDP per capita (PPP) of $39,400, while the most affluent member of the EDE group in the same year (other than Saudi Arabia and Russia) was Turkey at GDP per capita of $26,500. The least affluent member of the G20 has consistently been India, with 2016 per-capita output of $7,100.

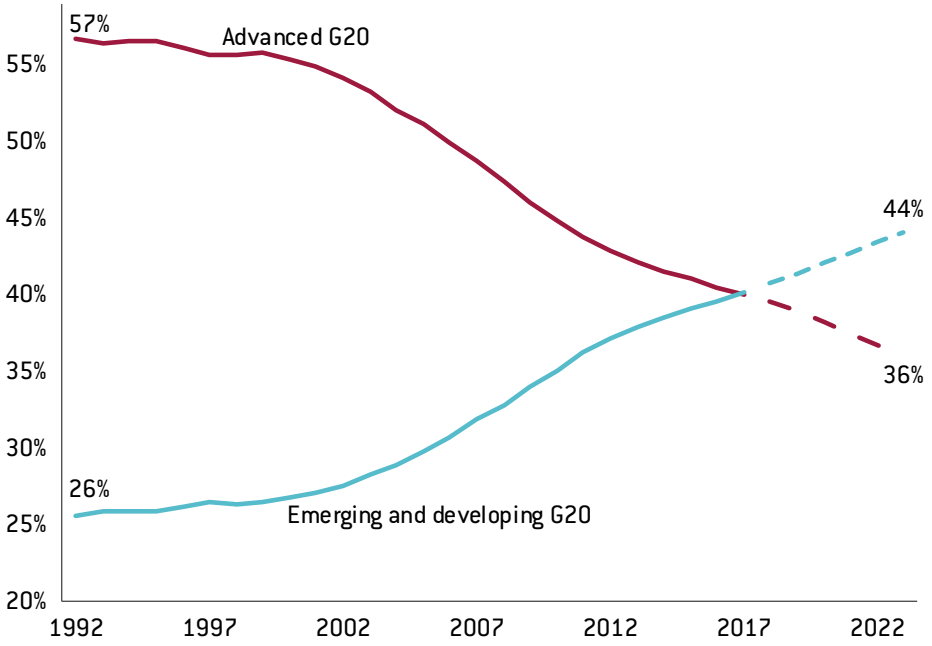
met at the ministerial level in 1999. It was later elevated to meetings at leaders' level in 2008. These were both responses to cross-border financial crises, in which the emerging markets were revealed as important links in global finance. This shared vulnerability was demonstrated by the collapse in 1998 of the Long Term Capital Management hedge fund, and in 2008 by the decision of the US Fed to extend exceptional swap lines in 2008 to Brazil, South Korea, Mexico and Singapore (Chey, 2012). Threaded through these developments are two narratives, which we explore: first, the G20's effectiveness in helping heal the advanced economies after 2008, and its record and potential for maintaining high-quality growth for the AEs, and for the world, in coming years; and second, the value-added of the G20 for its less-affluent (and less financially open) members over the past decade, and the G20's priorities for the future.

2 The G20 members: a profile

The membership of the G20 has been stable since the group was first convened in 1999. It consists of nineteen sovereign states and the European Union as full members. In addition, Spain is a permanent invitee to summits. Figure 1 charts the historic and projected shares of world real output of the two G20 sub-groups over a thirty-year span starting in 1992. While the starting point is arbitrary, it broadly reflects an era of accelerated real and financial global integration. Figure 1 shows that the AEs' share of global output has declined from around a half to a third of global output over this period. The share of the G20 EDEs has, correspondingly, risen, largely but not wholly because of the sustained growth of China. Figure 2 tracks the performance of the G20 EDEs as a share of merchandise trade of all G20 countries over an even longer period. It corroborates the view that something decisive and sustained happened in the integration of G20 EDEs in the early 1990s, although this shift has been substantially driven by the growth of Chinese trade.

Figure 1: G20 emerging economies now equal G20 advanced economies in contribution to global output

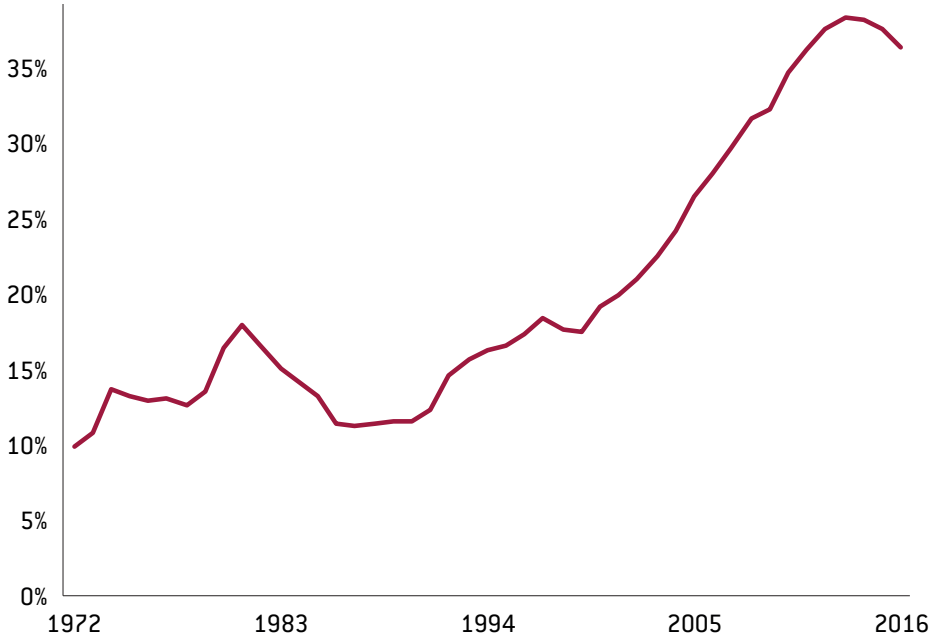
Shares of AE and EDE G20 economies in world GDP



Source: Bruegel based on IMF (2018) country estimates and classifications. Note: GDP in current international US$ at PPP exchange rates. Dotted lines (2018-23) are forecasts. 'Advanced' economies include: Australia, Canada, France, Germany, Italy, Japan, Korea, United Kingdom, United States and the member states of the European Union (EU28) that are not part of the G20 in their own right. 'Emerging and developing' economies include: Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa and Turkey.

Figure 2: G20 emerging economies, steady convergence in merchandise trade

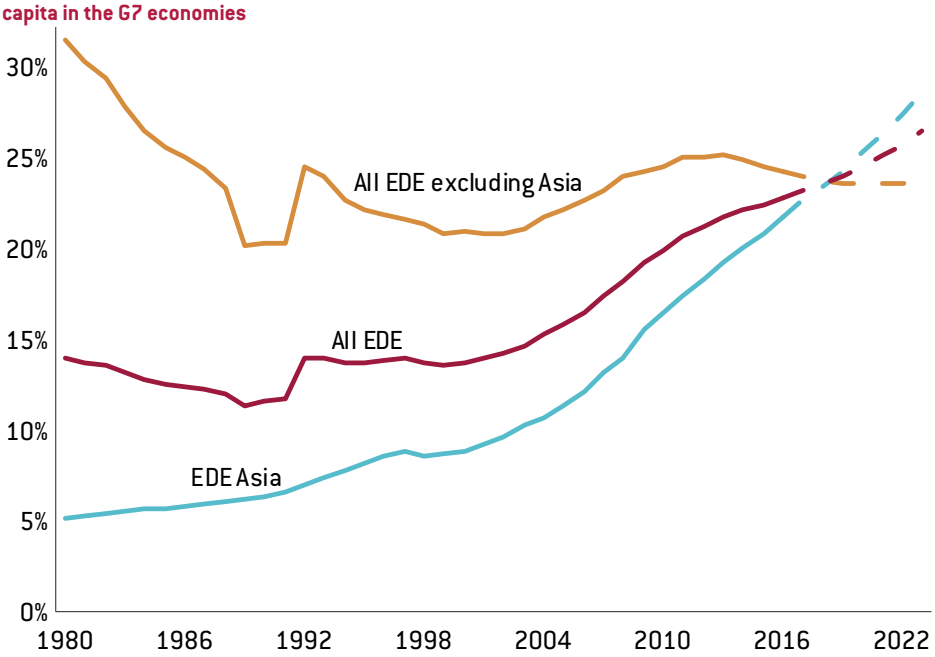
Merchandise trade in EDE G20 economies as a share of merchandise trade in all G20 economies



Source: Bruegel based on WTO Statistics Database. Note: Merchandise trade is the sum of exports and imports. Emerging economies group composition as in Figure 1. Data for Russia from 1992.

Figure 3: Asia stands out in real income convergence

Average GDP per capita in emerging and developing economies (EDE) as percentage of average GDP per capita in the G7 economies



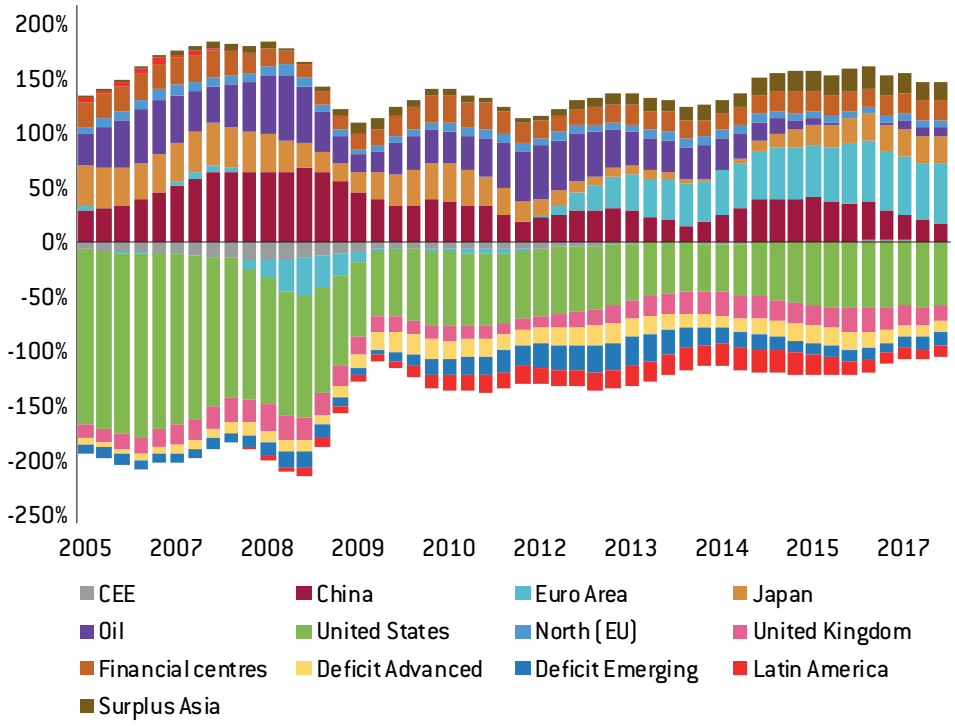
Source: Bruegel based on IMF (2018) country estimates and classifications. Note: GDP per capita in current international US$ at PPP exchange rates. Dotted lines (2016-2023) are forecasts. Country groups as defined in IMF (2018).

Figure 3 provides evidence of real income convergence over the last four decades. The reference group is the G7 economies (excluding East Germany at the beginning of the period), and Figure 3 shows the per-capita GDP of this group as a multiple of selected cohorts of emerging and developing economies as classified by the International Monetary Fund (IMF), a universe

wider than members of the G20. This chart once again suggests a break in the trend in the early 1990s, following which there has been a mild but continued convergence by the EDEs as a group toward the real income levels of the G7. The most powerful and sustained trend over the past forty years has been in developing Asia which has moved from having just 5 percent of G7 income in 1992 to almost 22 percent in 2016, projected to increase to 28 percent by 2022. Figures 1-3 are consistent with the established narrative that trade integration by the EDEs as a group has been associated with both fast output growth and real income convergence over the long haul, particularly for developing Asia. Cross-border financial integration is somewhat different and the picture varies for flows and stocks[3]. In the post-war period current account imbalances have repeatedly been the trigger for policy disputes, initially within the G7 and more recently including the EDEs. At a global level *ex-post* deficits and surpluses must balance, and it is a matter of judgement as to what is autonomous and what is induced (Bernanke, 2005)[4]. Bernanke's 2005 speech, suggesting that the US current account deficit was an offset to a 'savings glut' originating in Asia following the East Asia financial crisis of 1997, was a further indication of the rising systemic importance of the EDEs as a group.

Figure 4: Global current account imbalances: narrower since crisis; surpluses have shifted but deficits largely remain in US

Quarterly current account surplus and deficit for various country groups as a percentage of world annual GDP (4-quarter moving averages)



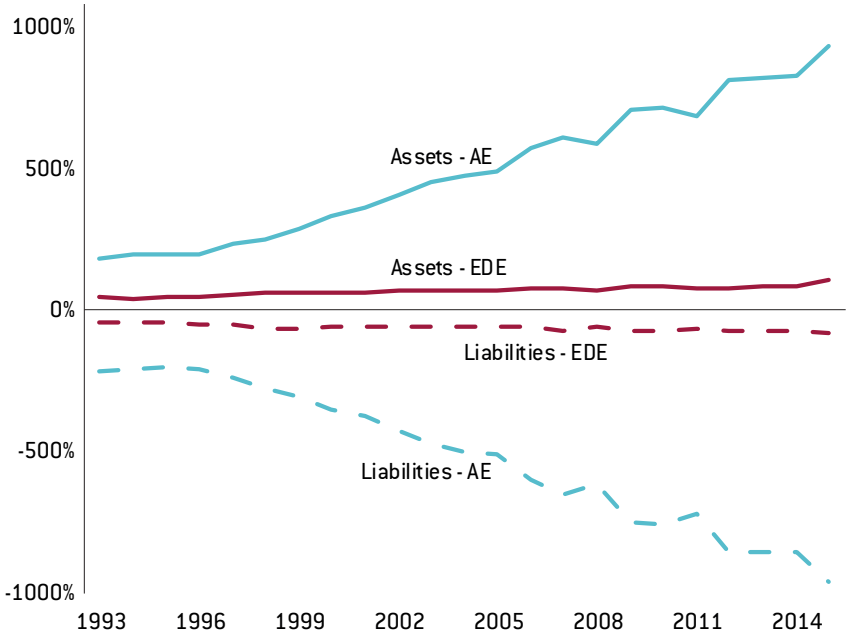
Source: Bruegel based on IMF International Financial Statistics and WEO. Note: Figure shows 4-quarter moving average of quarterly gross current account balance as percentage of yearly world GDP at market prices and current exchange rates. Country groups: CEE (Central and Eastern Europe) comprises Bulgaria, Croatia, Czech Republic, Hungary, Poland and Romania; 'Oil' comprises Norway, the Russian Federation and Saudi Arabia; 'Financial centres' comprises Hong Kong, Singapore and Switzerland; 'Surplus Asia' comprises South Korea, Philippines and Thailand; 'Deficit advanced' comprises Australia, Canada and New Zealand; 'North (EU)' comprises Denmark and Sweden; 'Deficit emerging' comprises India, Indonesia, South Africa and Turkey; Latin America includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico and Uruguay. Last observation is 2017 Q3. In principle gross surpluses and deficits should equal each other; the imbalance reflects exclusion of smaller economies, reporting errors and omissions.

3 Assets and Liabilities include both portfolio investment and foreign direct investment (FDI).

4 The Trump administration's concern with bilateral trade deficits is comparatively unusual, although not wholly unprecedented. Similar concerns animated the US posture towards Japan in the 1980s.

Figure 5: Cross-border financial exposure: gap has widened

Cross-border assets and liabilities held by G20 advanced (AE) and G20 emerging and developing (EDE) economies as a percentage of these groups' own GDP



Source: Bruegel based on data from Lane and Milesi-Ferretti (2017).

Figure 4 shows the evolution of current account surpluses and deficits by countries and regions as contributions to total global imbalances, expressed as shares of global GDP[5]. The most consistent trend is the increased contribution of the US to the aggregate global deficit. (Figure 11 shows this data as shares of US output). The story is more varied and fluid among surplus countries and regions. Bernanke (2015) summarised the important developments in the decade since his 2005 speech as follows: the US current account roughly halved in dollar terms; the current account surpluses of EDEs fell significantly, primarily because of adjustment in China. These trends were however, offset by rising surpluses in the euro area. As Bernanke observed, *"in particular, Germany, with population and GDP each less than a quarter that of the United States, has become the world's largest net exporter of both goods and financial capital. In a world that is short aggregate demand, the persistence of a large German current account surplus is troubling"* (Bernanke, 2015).

Figure 5 deals with cross-border stocks of assets and liabilities of AEs and EDEs, starting from the early 1990s. The curves represent the gross value of assets and liabilities as shares of each group's nominal dollar GDP. Figure 5 illustrates the stark difference in the evolution of the two groups when adjusted for size of economy. For many reasons (including deregulation, developments in information technology and financial innovation) cross-border holdings of foreign assets and liabilities of the AEs have risen far more quickly than those of the EDEs. This represents both an existing asymmetry between the two groups and an indication of what might follow if the EDEs go down the same path as the AEs. Figure 6 reinterprets the data of Figure 5 for a recent year, and aggregates the assets and liabilities for selected groups. It confirms that outstanding gross cross-border holdings are dominated by the advanced countries.

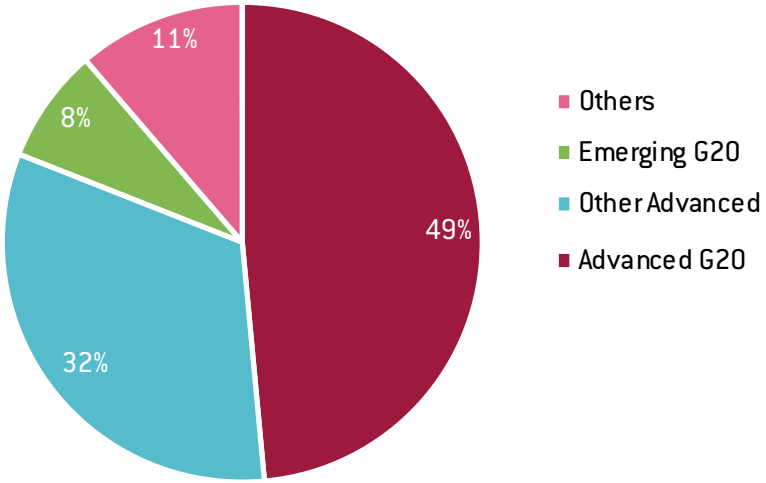
In sum, the decision to include the large emerging economies arose because of crisis but has been vindicated by what has taken place since. This is particularly the case in terms of output and merchandise trade. Large gaps however remain in real *per-capita* income and in

5 In principle, gross surpluses and deficits should equal each other; the imbalance reflects exclusion of smaller economies, reporting errors and omissions.

financial depth and openness, even as the EDEs, individually and as a group have increasingly become systemically important[6]. These gaps in turn have implications for the agenda and functioning of the G20.

Figure 6: Advanced economies dominate cross-border finance

Distribution of absolute value of cross-border assets and liabilities by country group at the end of 2015



Source: Bruegel based on data from Lane and Milesi-Ferretti (2017).

3 Assessment criteria

To assess the effectiveness of the G20 leaders we need a yardstick. We have followed established practice in using the G20 leaders' own early statement of aspiration (at the Pittsburgh Summit in 2009) of restoring *"strong, sustainable and balanced growth"*[7]. Even this relatively narrow focus requires agreement on three contentious matters: what such high-quality global growth would look like; what range of actions (and carried out by whom) is required to bring about such growth; and what would be an alternative (counter-factual) trajectory for global growth in the absence of the G20's direction. These economic issues largely fall under what is called the 'Finance track' of the G20. The procedures and rhythms of this track were established in the decade before the first leaders' summit, when meetings were held at the level of finance ministers and central bank heads. The consequence is that integration with the mandate and governance of the international financial institutions (IFIs), notably the IMF and the Financial Stability Board is relatively smooth. By contrast, the G20 leaders are primarily driven by the so-called 'Sherpa track'. This second track integrates the important economic, but fundamentally technocratic, concerns of the finance track into the broader political concerns of each G20 member country[8]. It is the Sherpa track under which the leaders' communiqué is produced following each summit.

Assessing G20 performance along the 'Sherpa track' is more complex than the finance

6 The shortcomings of the global monetary and financial system led the G20 Finance Ministers in 2017 to establish an Eminent Persons Group (EPG) on global financial governance. This group reported to the Ministers at their meeting in Bali in October 2018 (G20 Eminent Persons Group, 2018).

7 See for example Butler (2012) and Lavigne and Sarker (2012).

8 For clarity we refer to G20 members as 'member countries', and countries of the European Union as 'member states'. In this regard the EU is one 'member country' of the G20.

track, and the relevant deliverables are less tangible. A broad variety of issues have come before the leaders (see Annex 1, which uses data from the Toronto G20 centre; see also footnote 1)[9]. While concerns about mission creep and loss of focus are not unfounded[10], our conclusion from interviews is that the G20 leaders' meetings provide an important, informal political forum at a time of massive upheavals in global production, distribution and technology. At a minimum these meetings help to bring to the surface the resulting national and global tensions. The communiqués are sufficiently significant to be an effective tool for exerting peer pressure. Despite intense time pressure and multiple political differences, the leaders have found it worthwhile to meet annually and to deliberate on critical global issues as these have evolved.

Participants in these meetings suggest that bilateral conversations that occur are of equal importance to the formal sessions; also that the refreshing of the agenda under successive country chairs both enables a broad range of cross-border issues to be brought to the attention of the leaders and encourages a sense of 'ownership' by the rotating presidency. One think-tank interviewee with long-standing G20 experience observed that recent debates among the leaders have reflected the shared challenge of preserving the market economy in a world still adjusting to the aftershocks from the 2008 financial crisis. These aftershocks include a deep crisis of elite legitimacy, unpalatable distributional outcomes at the national level and unbridled, disruptive but so far economically fallow technological change. A potent symbol of these concerns is the inclusion of the 'future of work' as a priority for the Argentine G20 presidency. Even so, the issue of accountability cannot be avoided, particularly given the increasing scale of bureaucratic and financial resources that the leaders' process now consumes[11].

4 G20 achievements and accountability

Global growth

The trajectory of real global growth[12] following the 2008 crisis has been exhaustively documented in successive editions of the IMF's World Economic Outlook (WEO), presented here in summary terms (Figure 7). Figure 7 also uses the IMF's growth forecasts for future years in successive editions of the WEO at various points after the crisis. Two points are clear: first, that the IMF's original expectations of recovery were much too optimistic; and, second, that the trajectory of projected real global growth has been steadily lowered over the decade. On this reckoning the global economic recovery after 2008 has been disappointing, although the IMF's institutional bias toward optimism might partly be responsible. Historical precedents suggest that it takes as much as nine years for the effects of a widespread 'balance sheet' crisis to be reversed (Reinhart and Rogoff, 2009). This is not to say that policy is powerless to shape the trajectory of the recovery and we examine the differences of diagnosis, particularly across the G7, that might have acted to hold back the recovery.

9 *"The G20 exists, but its mission and role in the world economy are not well defined. For the moment, its focus evolves over time, driven by successive presidencies"* (Angeloni and Pisani-Ferry, 2012).

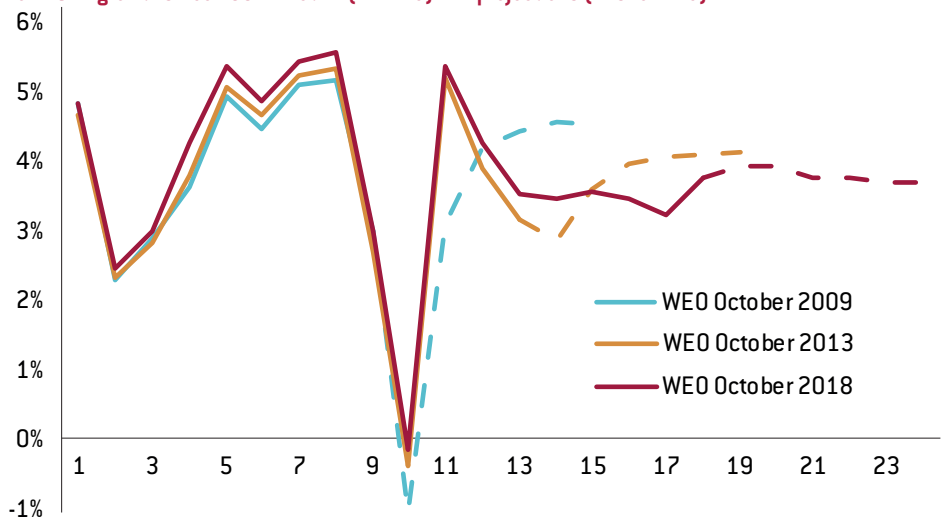
10 G20 EPG (2018) (Proposal 17) notes the actions of the Argentine Presidency in sharpening the focus of issues brought to the leaders for their consideration.

11 As at 21 August 2018, the Argentine Presidency website reported 84 working group meetings as well as the leaders' summit. Also see Table 1, and Table 1 in EPG (2018).

12 Measured in the World Economic Outlook as individual country growth weighted by current purchasing power parity (PPP).

Figure 7: The global recovery has been slower than expected

World GDP growth since 2001 – actual (full line) and projections (dashed line)



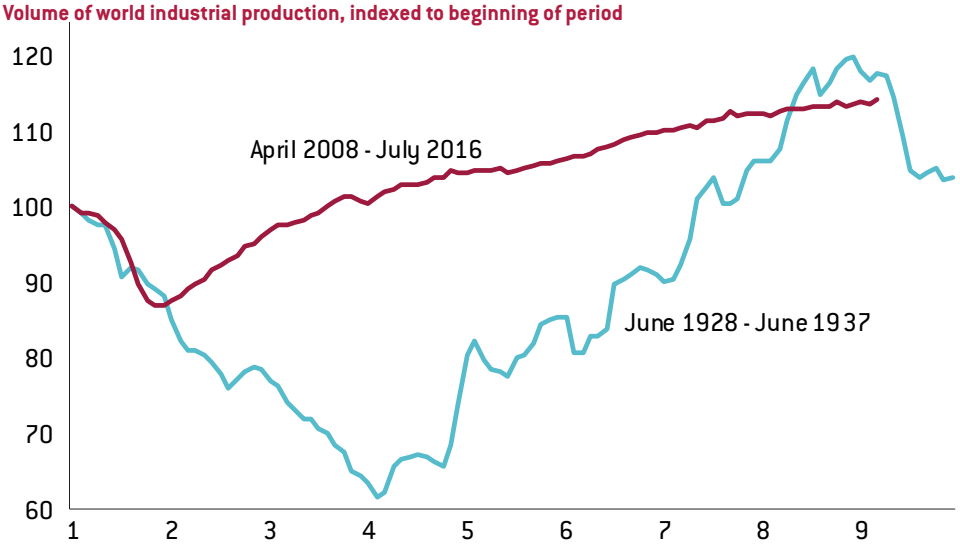
Source: IMF (2009; 2013; 2018). Note: GDP in constant prices, PPP weighted. Annual growth rates. Dashed lines are projections.

Avoiding depression

An important claim made for the G20 leaders is that they prevented the financial crisis of 2008 from descending into a second Great Depression[13]. Figures 8 and 9 examine this claim with reference to the Great Depression of the 1930s, pulling together growth in real global output and international trade. While in both episodes industrial production dropped sharply compared to pre-crisis levels, the bottom was far shallower this time round. Equally noteworthy, though is the much more rapid recovery in the 1930s: note that this was in a period before the mobilisation for the second world war. While there has been much hand-wringing on the slowing of global trade after the 2008 crisis, Figure 9 is more reassuring on the comparison with the 1930s.

Figure 8: Depression averted 1

Volume of world industrial production, indexed to beginning of period



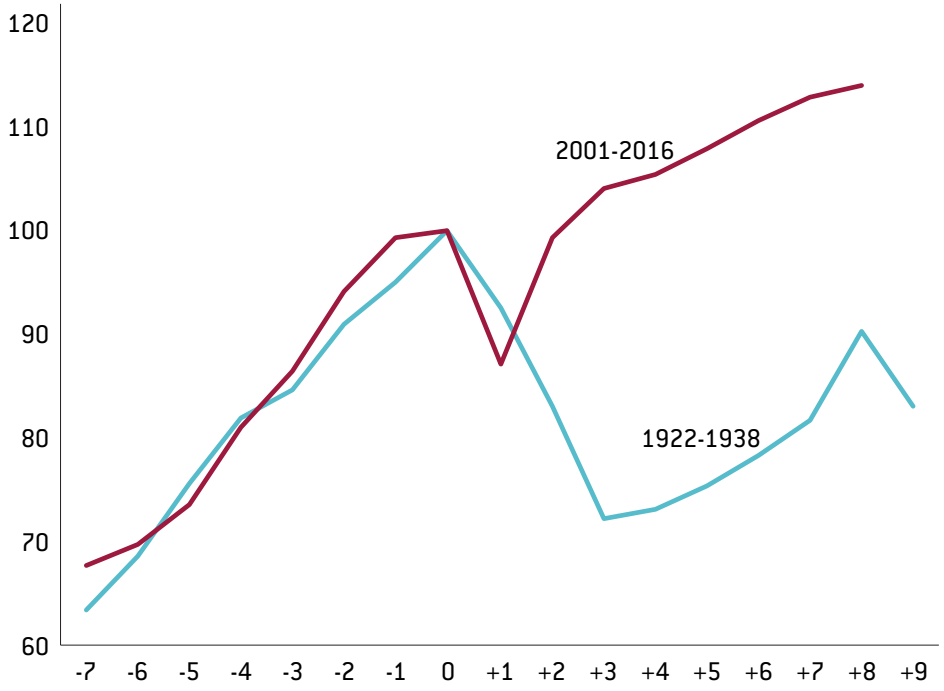
Source: Eichengreen and O' Rourke (2010, updated 2016). Note: volumes in June 1929 and April 2008 normalised to 100. X-axis shows years since the start of the recession.

13 The relevant alternatives would have been unilateral action by G20 member countries, each pursuing its own interest (though mindful of the behaviour and reaction of its peers); and the added value of wider membership of the G20 compared with the G7.

However, writing in the *Financial Times* Martin Wolf (2018) undertook a similar exercise to us, though for a much smaller group of countries, all of which today are classified among the advanced economies. Examining the record on post-crisis growth, deflation and unemployment he concluded based on country (not aggregate) data that *"this recovery has not been a triumph"*. On the positive side, for the US, the UK, France and Germany, real output was much more volatile in the 1930s than in the past decade[14]. Deflation was avoided by both the US and the UK this time round, unlike the situation in the 1930s[15] and in both these countries peak unemployment rates were half those experienced eighty years ago. By contrast the euro-area periphery (Portugal, Spain and Greece) endured peak unemployment rates not very different from those suffered by the core countries in the Great Depression, because of the longevity and depth of the recessions suffered by these three countries[16].

Figure 9: Depression averted 2

Volume of world trade in goods, indexed to the start of recession



Source: Federico and Tena-Junguito (2016) and CPB Trade Monitor. Note: Volumes in 1929 and 2008 normalised to 100. X-axis shows number of years before and since the start of the recession. Historical 1922-38 data built using current country borders.

14 Given our focus on non-G7 members it is of some interest to compare these before the current crisis with the core countries (France, Germany, the UK and the US) immediately prior to the depression. Using data from the Maddison project at the University of Groningen, we note that China's *per-capita* output in 2008 was just a little lower than that of the US in 1929, while that of Indonesia in 2008 lies somewhere between that of France and Germany in 1929. Turkey and Russia are considerably more affluent; their *per-capita* output in 2008 was roughly that of the UK in 1960. Of the G20 members, it is India that brings up the rear, with output per head in 2008 only two-thirds that of Indonesia, and about the same as the US in 1880.

15 The euro area and Japan were less successful in avoiding deflation, although both successfully used unorthodox monetary tools to limit its impact. However, neither jurisdiction has been as successful in returning to nominal market interest rates at levels that would have been considered 'normal' in their own past, for reasons that lie outside the scope of this paper.

16 Wolf (2018) argues that swift action on fiscal, monetary and banking policies in the Anglo-Saxon pair explains their superior performance. To quote, *"the contrast between the swifter US recovery and the dreadful delays in the eurozone gives striking support for this view. Essentially, the latter lost five years before the recovery began"*.

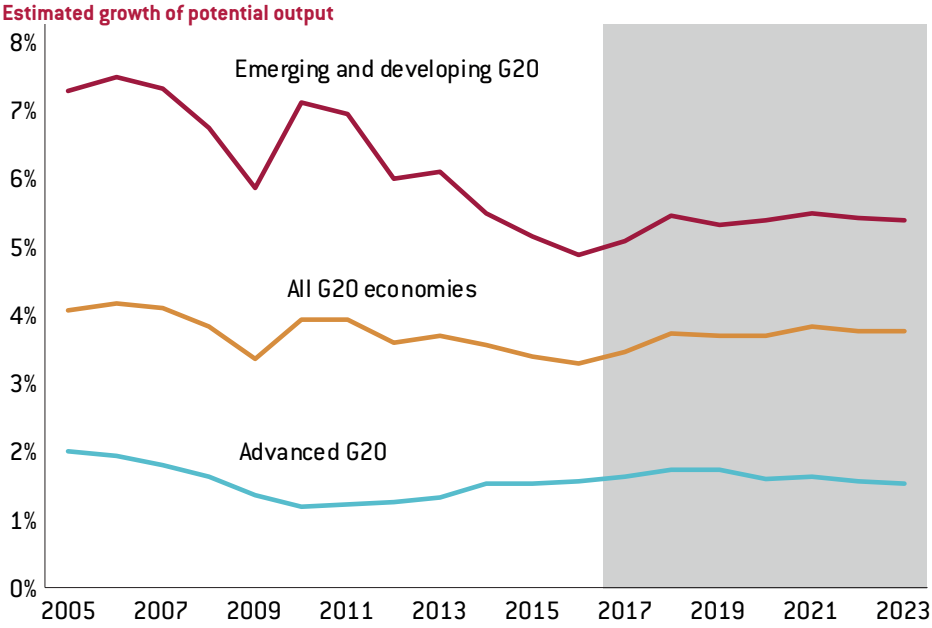
The supply side: potential growth

Recorded growth outcomes represent the combination of longer-term trends in potential growth (reflecting developments on the supply side of the economy) and cyclical demand fluctuations which represent negative or positive 'output gaps' when compared with estimated potential. Figure 10 provides estimates of growth of potential output for the entire G20 group, and separately for the advanced economies (AEs) and the emerging and developing economies (EDEs). From Figure 10 it appears that the post-2008 period has been associated with a much sharper slowing of potential growth in the EDEs than the AEs, though for both groups the post-crisis period marks a decline. Interestingly the increasing relative economic weight of the EDEs means that potential growth for all G20 countries is less affected than for each sub-group. We note that there is considerable uncertainty about the sources of growth in post-industrial economies where intangible capital has become of overwhelming importance. The estimates for the EDEs are perhaps better grounded, and as such should be a greater source of concern. Accepting this caveat, these estimates raise two questions for policy. First, whether the pre-crisis trends were unsustainable and a 'new normal' is both inevitable and desirable. Second, whether country-level structural policies could do more to lift potential growth in a more sustainable fashion than before the crisis[17].

Each economic sub-group is dominated by one giant: in the case of the G20 AEs this is the US (38 percent of aggregate sub-group GDP in 2017) while for the G20 EDEs this is China (45 percent in 2017). China's relative weight in its sub-group is both overwhelming and has increased by 20 percentage points over the last two decades. In both these giants idiosyncratic factors underlie the slowdown in potential growth. In the case of the US, Stock and Watson (2016) (among many others) have identified several secular factors behind the growth slowdown, which predate the financial crisis. In China, even before the 2008 crisis, the country's senior political leadership had noted the unsustainable nature of its growth model, reflected in rising debt and a declining return to a stupendously high investment rate.

Figure 10: Growth prospects

Estimated growth of potential output



Source: Bruegel based on data from IMF (2018). Note: Potential output is a measure reported by the IMF for each economy. Averages created weighting economies by PPP. Group composition as in Figure 1 except: Saudi Arabia and EU member states that are not G20 members in their own right are missing. Shaded area shows projections.

17 This is the task that the G20 set itself at the Brisbane Summit of November 2014.

5 Policy coordination

The Pittsburgh Summit of November 2009 established the 'Framework for Strong, Sustainable and Balanced Growth.' This was intended to maintain the momentum of the London summit which had taken place earlier that year[18]. The Framework was described by the leaders as *"a compact that commits us to work together to assess how our policies fit together, to evaluate whether they are collectively consistent with more sustainable and balanced growth, and to act as necessary to meet our common objectives"*. The Framework was widely regarded then *"as the most important agenda item for the G20"* and the *"mechanism through which the G20 sought to deliver on its commitment to be the premier forum for international cooperation"* (Butler, 2012). This work has since been taken forward under the auspices of the Framework Working Group, co-chaired by Canada and India. At the time the Framework was established, G20 leaders were particularly concerned to reduce global current account imbalances without putting a fragile global recovery at risk. They were also concerned to avoid the export of deflation through predatory trade and exchange rate policies, as happened in the 1930s.

While the political commitment to policy coordination has been sustained, it remains work in progress

Since the Pittsburgh summit, herculean efforts have been made by successive summit chairs and by G20 country officials, supported by the IMF and the OECD, to implement this mandate from the leaders[19]. Since Pittsburgh this Mutual Assessment Process (MAP) has evolved analytically, in procedure and in transparency. Since the 2012 Los Cabos summit the Framework Working Group has published an annual accountability report which provides a useful glimpse of the continuity and evolution of the coordination process (G20 Framework Working Group, 2017). We also have the benefit of the IMF's spillover reports that it prepares in advance of the G20 meetings, and its monitoring of multi-year commitments to boost growth made at the Brisbane summit of November 2014 (IMF, 2017). These sources have been supplemented by our interviews to help us to understand the complex mechanics of policy coordination among the 20 parties.

The disappointing path of the global recovery led to the attempt at the Brisbane Summit of 2014 to evolve a multi-year programme of commitments by member countries to stimulate global growth by 2 percent over the next five years – the so-called 2-in-5 programme (IMF, 2017). The goal was also to lay the foundation for balanced growth in the longer run, based on fiscal and financial consolidation and including structural measures. As at July 2017, the overall impact of committed actions implemented since 2014 was estimated to have raised the G20's collective GDP by 1.23 percent (by 2018), rather than the hoped for 2 percent over the baseline. More than half (55 percent) of key commitments have been implemented since the Brisbane meeting, while 40 percent are still in progress, and the remaining 5 percent have not commenced. That said, the global recovery has gained momentum since mid-2016. While fears of deflation remain a continuing concern in some advanced economies and also in China, inflation has slowly been getting closer to target (although some distance remains in both the euro area and in Japan) and output gaps are closing. Yet the longer-term post-crisis outlook for the EDEs is more troubling. In emerging economies, notwithstanding high potential growth rates in some countries (including India and Indonesia), many countries have estimated long-term growth rates at 2 percent and lower, which suggests they might not achieve income convergence with advanced economies once the cyclical recovery runs its course.

While the political commitment to policy coordination has been sustained, it remains work in progress. Given its importance (to the G20 and for the world economy) it is worth probing the conceptual, technical, institutional and political difficulties that have arisen in the sustained attempt to deliver on this mandate. Following Angeloni and Pisani-Ferry (2012), our focus is on coordina-

18 To begin with the leaders met twice annually. As the financial crisis began to ease, in 2011 this moved to the current annual cycle.

19 In its turn, the EU engages in a structured exercise with all member states to coordinate positions ahead of G20 finance track meetings (Bertoldi *et al*, 2016).

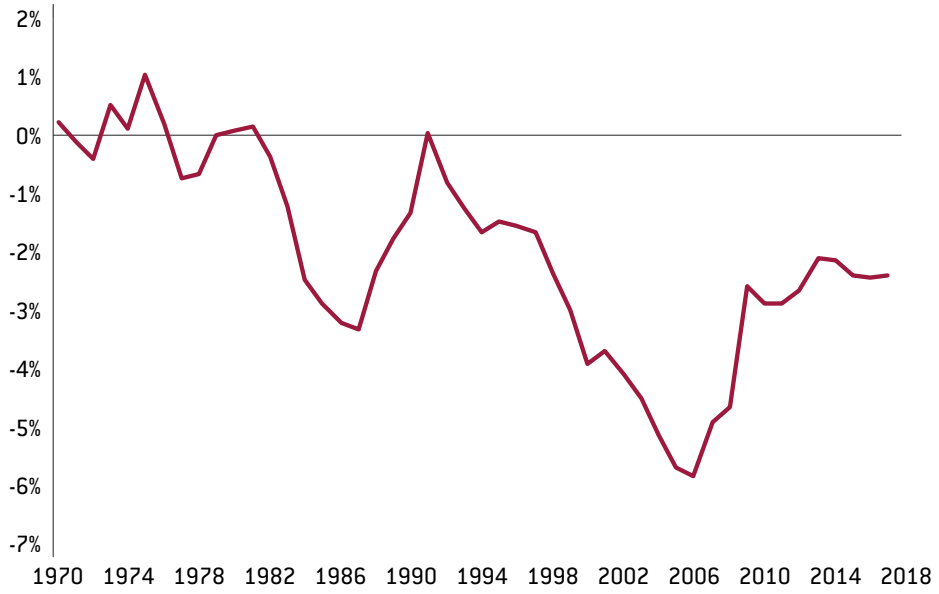
tion of country monetary and exchange rate policies, although the G20's efforts have since evolved to include fiscal, financial and structural policies. With a focus on the experience of the AEs, Angeloni and Pisani-Ferry (2012) provided a succinct account of the evolution of the international monetary order since the IMF was created in 1945, the shift from the par value system to floating exchange rates, and the subsequent effort in the 1980s to coordinate exchange rate policies.

The debates of that era are important to understand the coordination challenges faced by the G20 since 2009, as also to understand the perspective of the EDEs where this might differ from that of the AEs. In its pure form the Bretton Woods par-value system survived for just a decade and a half. The key tension was between the domestic and international roles of the dollar, with the international role essentially a side-show to domestic policy and political imperatives (Triffin, 1960; Eichengreen, 2006)[20]. President Nixon suspended gold convertibility in August 1971 and by March 1973 the 'adjustable-peg' exchange rate system was replaced by floating rates among the major industrial economies, in part to facilitate a real trade-weighted depreciation of the dollar (Hetzel, 2013). The rules-based adjustment of the Bretton Woods system was replaced by informal consultation among the major economies, later to become the G7.

The high-water mark of advanced economy policy coordination in the era of floating exchange rates was the Plaza Accord of September 1985. In a reprise of the Nixon era, the US, France, Britain, Germany and Japan announced a package of measures designed to depreciate the US dollar against the currencies of its major trading partners. In a detailed analysis of that episode, Bergsten and Green (2016) conclude that the Accord represented *"the most successful example of international economic cooperation since the Bretton Woods agreement"*. The Accord was negotiated in complete secrecy and was a response to sustained large US current account deficits (which transformed the US from the world's largest creditor to its biggest debtor in less than a decade).

Figure 11: US current account deficits: profound and persistent

US net current account balance in percentage of US GDP



Source: The World Bank: World Development Indicators.

Bergsten and Green (Bergsten-Green 2016) indicate how complex it is to assess the impact of the September 1985 intervention, let alone its longer-term impact. The visibility of the Accord, and the fact that the dollar maintained its relative depreciation, achieved the greater purpose of quelling protectionist sentiment in the US Congress. While successful in this limited sense (what

20 As Eichengreen (2006) notes, Western Europe in the late 1960s constituted the financial periphery in the way that China and the emerging markets are today. Then, as now, the periphery was vexed by the freedom of monetary action available to the United States.

they call the 'Narrow Plaza') the broader effort to coordinate macroeconomic policies to support and validate the desired realignment was unsuccessful. They conclude that *"altering domestic policies to suit external objectives is rarely successful"* even though the five countries involved (the G5) tried very hard to do so at the G7 Tokyo Summit of 1986. This represented an ambitious effort to agree on consistent goals for all major components of national economic policies but went nowhere. Figure 11 shows that the 1985 measures were somewhat successful in reversing the US current account deficit, only to be followed by a much more prolonged slide that did not end till 2006, the eve of the financial crisis. The larger point is that, even in a world of floating exchange rates, market movements can generate current account positions that are politically unsustainable even if economically justified. This is a lesson that remains pertinent to this day.

The G7 experience of the 1980s has influenced the debates on the potential gains (and the appropriate methods) of policy coordination across the G20 countries. A British official intimately connected with the G20 from its early days, wrote that the Plaza Accord (and the Louvre meeting that followed) left G7 capitals disenchanted with the benefits of economic policy coordination (Butler, 2012). The renewed mandate for policy coordination at Pittsburgh therefore represented something of a *volte-face* for the AEs[21]. This reversal of earlier scepticism could reflect the need to engage with a wider variety of economic players with different income levels and economic systems. The fragility of the financial and regulatory structure of many of the Atlantic economies that was revealed by the crash, and the loss of confidence in the self-correcting power of market discipline, no doubt provided additional impetus. With the EDEs more integrated into global finance, they too perhaps were interested in a forum to express their dissatisfaction with the international monetary system, in a fashion reminiscent of disputes between Western Europe and the US a half-century earlier but in a world transformed by the spread of cross-border finance (Eichengreen, 2006; G20 EPG, 2018).

The G7 experience of the 1980s has influenced the debates on the potential gains of policy coordination across the G20 countries

In support of sceptics on the benefits of policy coordination, Angeloni and Pisani-Ferry (2012) accepted that *"theory and evidence in the recent decades have tended to support the view that, under plausible circumstances concerning the working of the international economy, the most efficient and effective arrangement for policymaking corresponds to each country acting in isolation, pursuing national objectives".* But they go on to say that the 2008 crisis revealed that *"the world economy has evolved, in recent years, in a way that makes the benefits from policy coordination at G20 level more likely and more substantial"* (Angeloni and Pisani-Ferry, 2012)[22].

Irrespective of the analytic case for positive spill-over effects from coordination, and the sustained efforts of the Framework Working Group, in practice there have been deep disagreements between G20 member countries on the stance of policy, and these disagreements have affected the shape and speed of the recovery. The political consensus at the London summit in 2008 proved to be short-lived. Soon after, the G7 countries became divided over the case for stimulative fiscal policy, even for countries with external surpluses and fiscal space. According to several interlocutors these doctrinal differences, together with differences of view on the appropriate response to the euro crisis, may jointly have slowed the global recovery to the detriment of all G20 members. A further consequence of lack of consensus among the AEs on fiscal instruments has been over-reliance on monetary policy. The sus-

21 In 2006 the IMF embarked on an exercise called the 'Multilateral consultation on global imbalances'. Our interviewees suggested that this was initiated by the US, which, as on several earlier occasions, was worried about the domestic political impact of its burgeoning current account deficit. The consultation was to comprehend five systemically important jurisdictions: China, the euro area, Japan, Saudi Arabia and the United States. Had it been pursued, it would have implied a first attempt at policy coordination among major AE and EDE economies. It did not proceed beyond the initial round of consultations.

22 A technical paper by IMF staff (Benes *et al*, 2013) notes noted that the term international policy coordination in the theoretical literature describes a situation in which *"due to well-designed incentives or penalties, a group of countries manages to move away from individual Nash policies to a set of policies that internalises some cross-border externalities, and that is therefore Pareto superior".* The IMF staff's more recent views on the benefits of policy coordination can be found in Gaspar *et al*, (2016).

tained use of unconventional monetary policy by major AE central banks, its (desired) effects on asset prices and its (collateral) effects on exchange rates also generated concern among EDE G20 members, in terms of both the way such policies were put in place and the difficulties of exit (Rajan, 2014).

Frankel (2015) and Eichengreen (2013) are illuminating on the practical limits to cross-national policy coordination. Frankel noted that different models of how the economy works can lead to very different conclusions on what constitutes good policy. These doctrinal differences primarily apply to the domestic policy mix, but also get in the way of coordinating global burden-sharing. Eichengreen noted that coordination is easier on technical issues among a narrow group of specialists (such as regulators operating under the auspices of the Financial Stability Board), but much harder on large issues of political economy and country strategy, except under conditions of extreme stress. Taken together these two observations suggest that the constraints on politicians compromising their economic sovereignty for a greater global good are near insurmountable, except in cases of extreme crisis. Progress will be slow and fitful if peer pressure is the only sanction available. The EU's own experience shows that even when a wide range of penalties and sanctions are available, domestic political considerations remain paramount. Our conclusion is that the effort remains worthwhile even if, till now, the payoff has been limited.

While the dominant search is for positive global externalities, Rajan (2014) comments on the importance also of an impartial global assessment of possible negative cross-border effects of policy innovations. He cites work from within the IMF which raises concerns about an optimism bias in the IMF's own judgments; that work notes that *"it is implausible that welfare gains at the national and global levels should always be positively correlated"* (Ostry and Ghosh, 2013). In a financially interconnected world, Rajan (2014) further notes significant dangers if the authorities in the AEs choose to remain silent on the implications of their actions for other, weaker players:

> *"Market participants conclude that recipient countries, especially those that do not belong to large reserve currency blocks, are on their own, and crowd devastatingly through the exit. Indeed, the lesson some emerging markets will take away… is (i) don't expand domestic demand and run large deficits (ii) maintain a competitive exchange rate (iii) build large reserves, because when trouble comes, you are on your own. In a world with deficient aggregate demand, is this the message the international community wants to send?"*

Rajan's comments lead us back to the earlier discussion of the monetary order. The 2008 crisis once again drew attention to the unresolved tensions between the domestic and international role of the dollar. In our judgement these tensions today matter more to the EDEs with their less sophisticated financial systems, and their greater vulnerability to herd behaviour in private capital flows. There was a flurry of commentary and analysis in the immediate aftermath of the crisis, notably, but not only, from countries on the periphery of global finance (see, for example Cho, 2012, but the same sentiments have been voiced by Chinese and Brazilian officials). Ahluwalia (2018) (the Indian sherpa at the London Summit) reminds us that *"when the crisis broke, UK Prime Minister Gordon Brown talked about the need for a 'new Bretton Woods,' implying that we needed a new international financial architecture with a restructured IMF"*. There has been little or no follow-up by the G20 on this agenda

Another notable voice, this time from the AEs, is that of Padoa-Schioppa (2010).

> *"The deep causes of this crisis include the dollar policy and, in a broader sense, the monetary regime that has been in force in the world for almost 40 years. Like the Bretton Woods system, it is incapable of imparting an acceptable macro-economic discipline to the world's economy because, being devoid of collectively accepted anchors, it encourages the persistence of unsustainable dynamics which spawn increasingly serious crises."*

Padoa-Schioppa admitted he did not have a preferred solution, saying rather that *"the issue of international monetary order is not being afforded due attention and it needs to be addressed…it is urgent for the academic and scientific communities, and indeed for all of those who harbour concern for the future of the global economy, to explore them"* (Padoa-Schioppa, 2010). Other important global critiques were offered by the Stiglitz commission under UN auspices (Stiglitz, 2009) and the Palais-Royal initiative (Camdessus and Lamfalussy, 2011). Angeloni *et al* (2011) explored possible future monetary orders.

The sluggish response of the G20 to monetary reform issues of importance to the EDEs in our view certainly reflects powerful interests with a stake in the current order, but also an inability of the EDEs to join forces to articulate a positive agenda for reform. A contrast can be seen with the massive attention given since the crisis to prudential regulation of banks and other financial institutions, driven often by the desire to protect the public finances (and the politics) of the rich countries against the need for future bank bail-outs. Meanwhile despite the inclusion of the Chinese renminbi in the basket of currencies that makes up the IMF's Special Drawing Rights, the international role of the dollar has, if anything, been enhanced by the crisis, while its centrality is increasingly being used by the US administration as a powerful source of diplomatic leverage. Within the G20, these issues appear to have been overtaken by the discussion of representation and voice in the international financial institutions (including the IMF) (Mohan and Kapur, 2013), on which progress has been slow. Ahluwalia (2018) notes that some reforms have taken place: European seats on the IMF board were reduced by two, to give greater representation to EDEs. While these are steps in the right direction, the US is still able to veto structural changes, which under the IMF's articles, require a super majority of 85 percent. A real reform would be to reduce the super majority required for structural change to say 75 percent, to which the US would have to agree.

6 Looking back to look ahead: some reflections

We now return to the two questions posed at the beginning of this Policy Contribution. Have the G20 leaders' summits (and all that accompanies them: see Table 1) succeeded in promoting, supporting and sustaining economic policies with positive cross-border consequences, while preventing the opposite? Expanding the discussion beyond the G7 to include the BRICS, particularly China, and other influential global players such as Australia, South Korea and Saudi Arabia, has been symbolically and substantively important. Yet we find that the policy coordination agenda has been dominated by the post-crisis priorities of the AEs, led by the G7. Diagnostic and policy disputes have also largely been among the G7, particularly on the appropriate role of fiscal policy. Non-G7 concerns over negative spill-overs, particularly those arising from unconventional monetary policy, have largely been ignored, even though global growth has been sustained by China (and, to a lesser degree, India).

The political contribution of the leaders to the work of their finance deputies in the field of policy coordination is harder to establish than the leaders' engagement in areas such as tax avoidance or climate change. The limited evidence we have from both advanced and emerging economies is that a serious effort is made by senior finance officials to brief their political masters and that the communiqué language is seen as important by most leaders. Given past disappointments with policy coordination within the more homogeneous setting of the G7, we acknowledge the ambition of the task set by the leaders and the persistence of effort. For the same reason, it is only realistic to have relatively low expectations of either efficient decision-making or of successful substan-

tive outcomes, particularly once the white-heat of crisis had passed. Policy coordination is intrinsically hard, yet a pure 'my way' strategy is also untenable in a highly interconnected world, tempting though that might be for the economically powerful.

Our judgment on this first question determines the relevance of the second question: who can and will lead? While the G7 and the BRICS continue to meet at the leader level in their separate caucuses, neither group in 2018 any longer conveys a sense of great cohesion. The Trump administration has clearly and repeatedly signalled its scepticism of the value of multilateral discussion, agreements and institutions. Pisani-Ferry (2018) noted that the erosion of support for multilateral institutions intended to manage global governance has been underway for some time now. He attributes this erosion of support (at least within the advanced democracies) to several structural factors that are unlikely to be reversed quickly. He identifies five current domains (trade and investment; finance; competition; climate change; data handling and privacy) where present realities have run beyond the structures and institutions that, in principle are expected to provide rules of the road. One could add migration and taxation to this list.

While the G7 and the BRICS continue to meet at the leader level in their separate caucuses, neither group in 2018 any longer conveys a sense of great cohesion

Some of these structural forces are cross-border, such as the relative economic decline of the advanced economies. Others arise from domestic failures, again in the advanced economies, in managing the distributional consequences of globalisation. For EDEs two interlinked developments should be of concern. First, the consensus in support of improved living standards in the EDEs as a global public good has been replaced by a more transactional approach, even as the real income gap remains vast. Slowly but inexorably the discussion on responsibility and obligation has shifted from *per-capita* real income to size of economy, a shift that is particularly disadvantageous to China and India. Technological and regulatory shifts in the global order, together with demographic trends and environmental constraints, make real income convergence, the animating vision of the first decade of this century, seem like an ever-receding goal.

Table 1: Main types of meetings and working groups under the Chinese G20 presidency

G20 Summit of Heads of State/Government	
G20 Finance Track	**G20 Sherpa Track**
Finance Ministers and Central Bank Governors	Sherpas
Finance and Central Bank Deputies	Labour and Employment Ministers
Framework for Strong Sustainable and Balanced Growth Working Group (WG)	Energy Ministers
International Financial Architecture WG	Trade Ministers
Investment and Infrastructure WG	Agriculture Ministers
Climate Finance Study Group (SG)	Agriculture Deputies
Green Finance SG	Employment WG
	Energy Sustainability WG
	Development WG
	Anti-Corruption WG
	Trade and Investment WG
	Meetings of engagement groups: B20 (Business 20), L20 (Labour 20), T20 (Think 20), y20 (Youth 20), W20 (Women 20)

Source: Table 1 in Bertoldi *et al* (2016).

Implications for the G20 and for Europe

Pisani-Ferry (2018) notes the rigidity and sluggishness of the formal institutions designed to manage globalisation (the World Trade Organisation, the IMF, the International Labour Organisation) even though these institutions possess both capacity and wider legitimacy than the self-appointed G20. In the case of the IMF, we have noted the blocking vote of the United States in reforming the Articles, and despite rhetoric to the contrary the US and the EU have not shown themselves willing to surrender the right to leadership of the World Bank and the IMF. Following Pisani-Ferry (2018), if action is now reverting to nation-states rather than discredited supra-national bodies, the importance of the G20 as a forum could well increase in its second decade.

Our review suggests a miscellany of themes that might engage the G20's attention in the years ahead. First, we have made a case that the finance agenda needs to go beyond the prudential agenda of the FSB to revisit the issue of international monetary reform. EPG (2018) provides important and concrete reinforcement of this point. Second, we have noted the reticence and lack of cohesion of the EDEs at the G20. Divisions within the EDEs could well widen as China's trading practices become the dominant focus of trade disputes with the G7, even as the EDEs have other issues on which they have shared interests which are poorly articulated. The long habits of cooperation that developed over the last half-century within the G7 need to be replicated by the EDEs so that they can reach a common agenda, particularly on trade and finance. Following Rodrik (1997) we believe the animating principles of such EDE cooperation should be to combine productivity growth with policy flexibility and autonomy. Third, the Argentine and Japanese Presidencies together could use EPG (2018) to deepen the debate on the G20's own processes and procedures to make it more efficient and less resource-intensive.

Given their dominance of membership in the G20 and their continuing commitment to multilateralism, the countries of Europe and the organs of the European Union have a special responsibility to influence the direction of the G20. Buti (2016, 2017; Buti *et al* 2016) has provided a clear indication of the issues that matter to the EU, although the writings came before the US rejection of multilateralism became as evident as it is now. Our earlier comments on monetary reform apply, although a more immediate and urgent challenge will be reform of the global trade order, and of the WTO as part of that. But perhaps the most searching test for Europe will be to make up its collective mind on whether the future rise of Asia is something to be welcomed or to be feared.

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Annex 1: Compliance analysis

Following each G20 summit, the G20 Centre at the University of Toronto selects a list of 'priority commitments' and monitors each member's compliance with each commitment, within a specified time frame. (This exercise is separate and broader than the peer-led monitoring of economic commitments). Compliance is scored ranging from -1 if no action was taken, 1 in case of full compliance, and 0 in case of partial compliance or if it was not possible to act. Scores are averaged by topic and/or meeting.

More than 2300 commitments have been classified by the Toronto researchers in categories ranging from macroeconomic policy to crime and corruption. As Figure A1.1 shows, by 2017 the largest number of commitments was in the category of macroeconomic policy, followed by financial regulation and economic development. Figure A1.2, shows that the general trend has been for the number of commitments to increase: the 2017 Hamburg Summit generated 527 enumerated commitments.

Table A1.1 shows compliance scores are positive: the highest scores are found for the meetings in Washington, Hangzhou and Antalya, whereas the lowest scores were observed for the London, Pittsburgh and Seoul Summits. These results contradict to some extent the common perception of the summits' outcomes. For instance, the G20 Summit in London in 2009 was announced as a huge success (Jokela, 2011), while the analysis presented here questions this common perception.

There is also a noticeable difference in effectiveness between the advanced and emerging G20 economies, and especially so for the earlier meetings, for which the advanced economies' scores are consistently higher than those of emerging countries. The difference narrowed for more recent meetings, and eventually reversed for the Hangzhou Summit. This difference might be driven by the more prominent role of advanced members in setting the agenda, partly because of the crisis. For example, for financial regulation reforms, commitments were primarily directed at the G7 members, which in turn recorded very high compliance scores. The switch in 2016 appears to have been mainly driven by the lower score of the United States. The EU is only included in the broadest G20 category, otherwise the advanced economy score would have been higher.

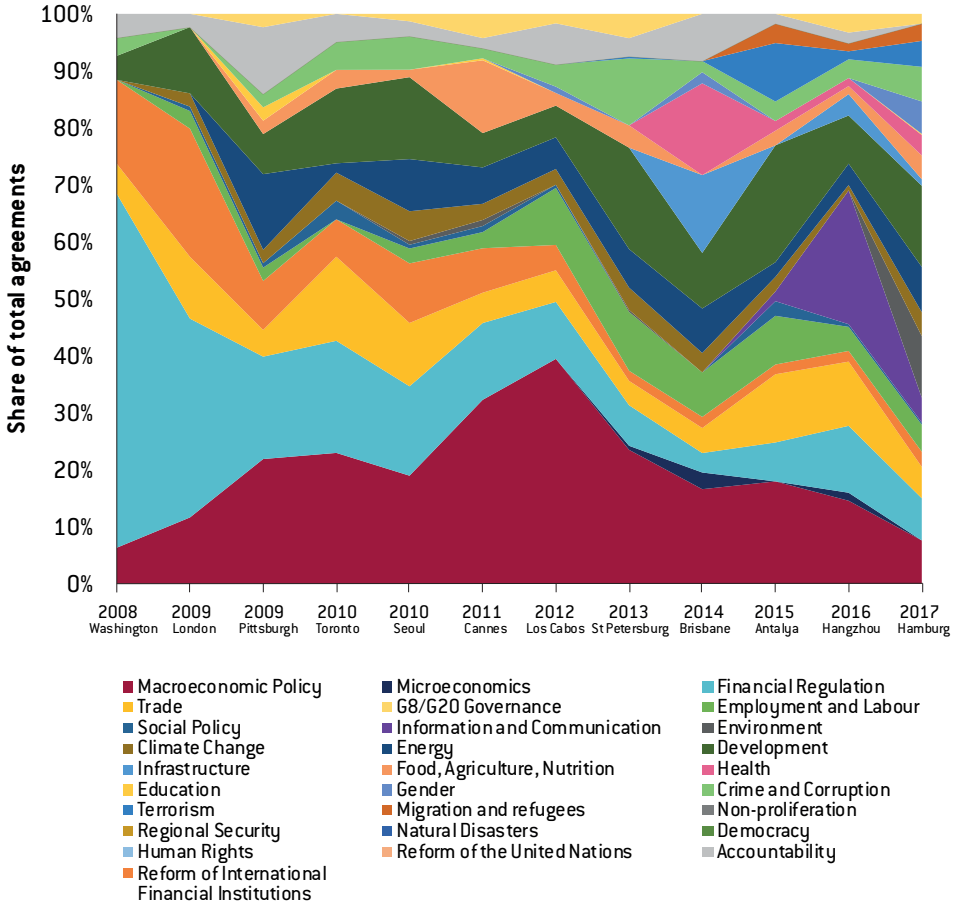
Table A1.1: GDP-weighted G20 compliance scores by summit

	G20	G20 Advanced	G20 Emerging	G7	EU4	European Union	Standard deviation
Washington 2008	0.66	0.82	0.50	0.84	0.88	1.00	
London 2009	0.17	0.43	-0.10	0.46	0.54	0.67	
Pittsburgh 2009	0.33	0.57	0.10	0.59	0.59	0.38	
Toronto 2010	0.38	0.61	0.14	0.61	0.63	0.73	
Seoul 2010	0.36	0.54	0.19	0.54	0.59	0.63	
Cannes 2011	0.52	0.64	0.40	0.63	0.66	0.79	
Los Cabos 2012	0.52	0.60	0.44	0.55	0.49	0.65	
St Petersburg 2013	0.47	0.60	0.34	0.61	0.64	0.63	
Brisbane 2014	0.59	0.68	0.43	0.68	0.57	0.75	0.26
Antalya 2015	0.63	0.65	0.53	0.66	0.71	0.81	0.17
Hangzhou 2016	0.64	0.54	0.64	0.53	0.58	0.84	0.16
Average	0.48	0.61	0.33	0.61	0.63	0.72	0.20

Source: G20 Research Group data and World Bank. Note: aggregation by GDP in constant 2011 international dollars. Standard deviations across all members.

Figure A1.1: Between 2008-2017, the G20 agenda has broadened substantially

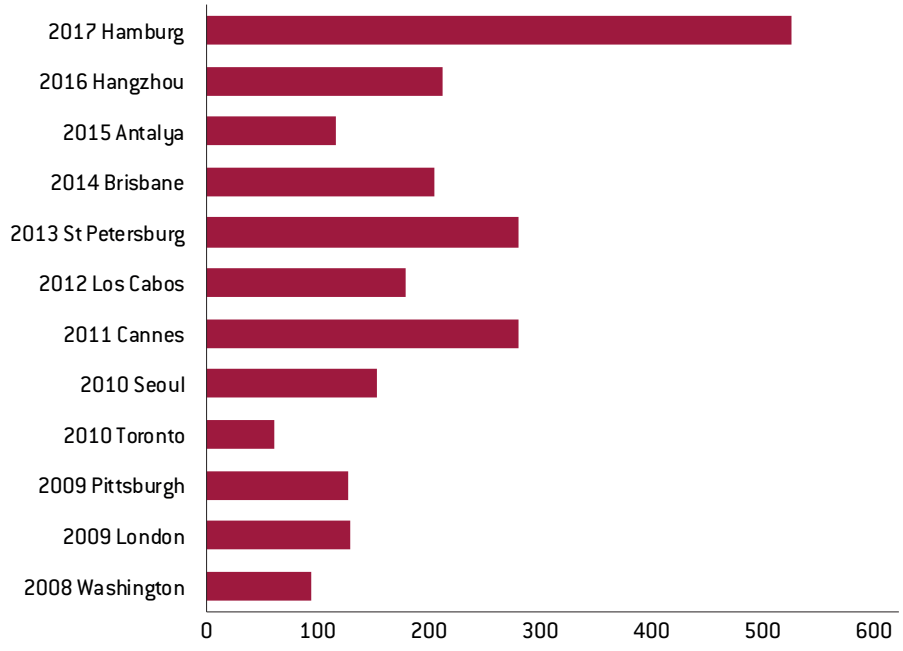
Leaders' commitments released publicly at G20 summits, break-down by policy area



Source: Bruegel based on University of Toronto G20 Research Group (2018).

Figure A1.2: The number of G20 commitments has increased

Count of commitments in leaders' statements released publicly at G20 summits



Source: Bruegel based on University of Toronto G20 Research Group (2018).

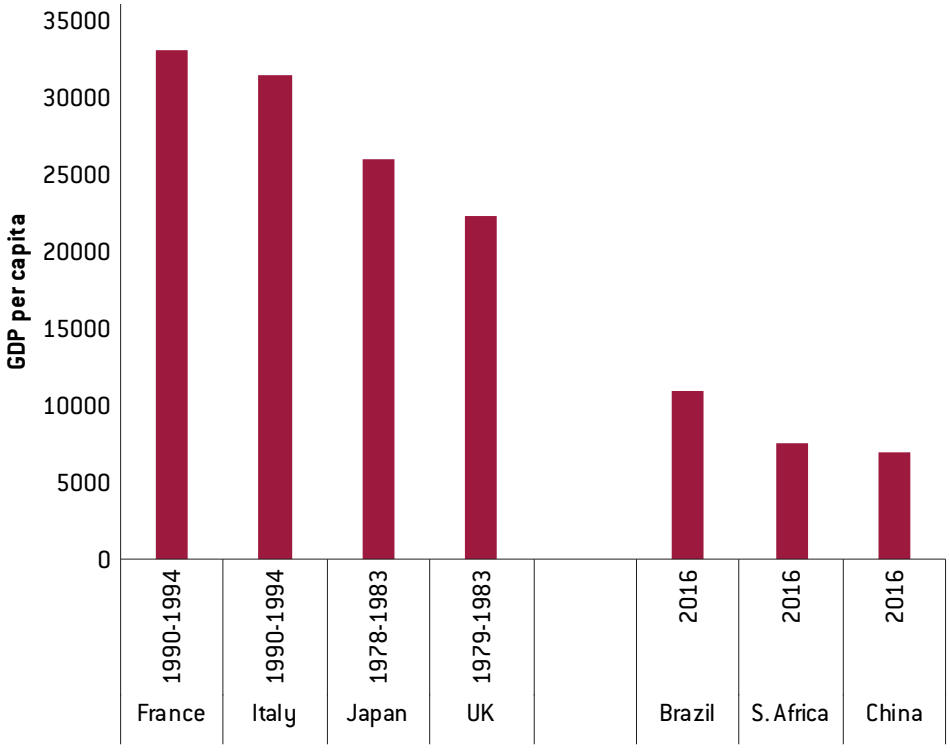
Macroeconomic policy and energy are the policy areas with the highest compliance, while the lowest scores were recorded for corruption and trade. Moreover, by comparing G20 compliance scores with those of the G7, what stands out is the average lower score for the G20, which is mostly driven by emerging economies. This might signal greater difficulty in creating consensus across a larger and more diverse membership, or possibly because of the more G7-driven agenda of the first summits, as noted above.

Annex 2: Capital account liberalisation in advanced and emerging economies

While the US embraced an open capital account soon after the second world war, the process of capital opening was much more gradual in Europe and Japan. Official flows dominated in the 1950s, the era of the Marshall Plan and the World Bank's role in post-war reconstruction. These helped to ease the severe dollar shortage experienced after the war. At the time, the US ran a current account surplus. Cross-border private finance began to pick up in the 1960s with the creation of the Eurodollar market based in London, a response to interest rate controls in the United States (the so-called Regulation Q) and to the need for dollar financing for European and American multinationals.

The IMF requires countries to report capital controls in place and Menzie Chinn and Hiro Ito have developed an index (Chinn and Ito, 2008) which tabulates these restrictions by country, over time. This is an index of so-called *de-jure* restrictions on capital movements (both direct investment and portfolio). *De-facto* capital mobility might differ as there are many informal ways of bypassing formal capital controls, but since our interest here is in the policy stance of countries toward freedom of capital movements the use of a *de-jure* measure is appropriate.

Figure A2.1: Advanced economies were rich when they liberalised their capital accounts.



Note: Average GDP *per capita* in 2010 US Dollars at PPP exchange rates. Sources: World Bank WDI. Note: Periods of capital account liberalisation identified detecting upward spikes to the frontier of the Chinn-Ito index.

Figure A2.1 uses the Chinn-Ito index to date periods of significant capital account opening in three European countries and in Japan, giving their real *per-capita* income at the time of their openings. The *per-capita* incomes of Brazil, South Africa and China in 2016 are provided for comparison. The figure indicates that all four of the advanced countries were much more affluent when they liberalised their capital accounts than their selected EDE peers are today, where *per-capita* income is a rough proxy for the sophistication of the financial sector.

According to, for example, Eichengreen (2001), crucial steps in capital account convertibility in Europe were the Single Market Programme of 1985 and the Single European Act of 1987, which aimed at implementing a *de-facto* single market by 1992. Abolition of capital controls was finally enshrined in Directive 88/361 of 1988. From the Maastricht Treaty (1993) onward, financial integration has constantly been addressed in regulation/reports. Currently, one of the conditions for accession to the EU is free movement of capital. In the OECD, open financial markets have been promoted through the Code of Liberalisation of Capital Movements and the Code of Liberalisation of Invisible Operations (which covers cross-border services). Of these two, the Capital Movements Code remains the only multilateral instrument in existence promoting the liberalisation of capital movements (G20 Eminent Persons Group, 2018).

Capital account openness is a sovereign choice and there is a great range of experience and practice within and outside the G20. The issue is less with the steady state than with managing the transition. Drawing upon the experience of Latin America, Diaz-Alejandro (1985) argued that countries with relatively immature financial systems should be cautious in opening their capital account. More recently Kose and Prasad (2012) noted that capital account liberalisation can in principle bring benefits to developing economies (through the more efficient global allocation of capital and higher compliance with good policies) but also risks (in terms of 'amplifying swings in the domestic macroeconomy' during periods of crisis).