

The G20 in retrospect and prospect

The G20 has become a highly effective international forum for collective decisions over global issues from trade to fiscal regulation. The challenge will be to maintain the momentum in the future

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The G20 was created in the wake of the 1997–99 Asian financial crisis as it became clear that global financial issues could no longer be managed by the traditional G7, made up of rich countries. The scale of emerging economies and their growth was such that they would no longer only be shaped by global economic developments, but would have a powerful role in shaping them. Indeed, today, emerging markets account for well over half the growth in global trade and global financial reserves, as well as global wealth and income.

It is said that one should visit one's doctor before one has a serious medical problem. It is in this way that the first decade of meetings of the G20 finance ministers and central bank governors will be remembered. While important discussions about the policies of the international financial institutions and about issues ranging from money laundering to debt relief for highly indebted poor countries took place, it remained the case going into 2008 that the annual meetings held much the same message.

All this changed in the autumn of 2008 and the spring of 2009. With the world on the brink of financial Armageddon, the G20 met for the first time at the leaders' level in Washington, in November 2008, and then were committed to meet again in London in April 2009. With 90 per cent of global gross domestic product represented, the twin summits were highly productive – perhaps the most successful piece of economic summitry of the past generation.

Four main outcomes emerged: a commitment to avoid protectionism and maintain international integration, a major increase in the support for the international financial institutions, a commitment to macroeconomic policies and a shared commitment to a serious upgrading of global approaches to financial regulation.

While every policy area is different and has its own complexities, there was an element common to all of the successful outcomes. In each case, the G20 enabled countries to pursue strategies that made the world better off when pursued commonly, but that might well not be in the interest of any one country acting unilaterally. The G20 provided a kind of collective reassurance that permitted countries to act in internationally responsible ways, and provided peer pressure that helped leaders surmount domestic political pressures.

The value of a common commitment

Today, it is clear that the world trading system, even under the strain of the Great Recession, has not imploded, despite the evident temptations of protection when faced with rising unemployment. True, the Doha Round has not moved forward in the way many would have hoped. But the more important point is that despite by far the worst downturn since the Second World War, and despite substantial trade imbalances, there has been very little resort to protection, and 'beggar-thy-neighbour' policies have largely been avoided. This reflects, in part, the reduced viability of protectionism as an economic strategy in a world of global supply chains. But it also reflects the common commitment made by the G20 leaders.

The G20 also agreed on measures to ensure the availability of finance for emerging markets. An agreement was reached to triple the financial resources available to the International Monetary Fund (IMF), along with the provision of flexible credit lines to emerging markets with sound policies.

A framework was established in which the World Bank was able to substantially increase its lending, and special support was provided for trade finance. Once again, collective action problems were averted due to the inclusive structure of the G20. The fact that members pledging aid knew that their peers



were doing likewise helped facilitate a quick and meaningful commitment. Additionally, countries outside the G7 played a substantial role in buttressing the credit lines – without their involvement and support, the resulting funding measures would have been smaller and probably ineffective. While strong fundamentals played a role, the availability of support on a substantial scale is surely part of the reason why the recent crisis was the first in history where major problems in industrialised countries did not do devastating damage to emerging economies.

A third major outcome of the 2008-09 summits was a common commitment to expansionary policies directed at maintaining



Growth in the emerging markets, such as India, is such that they now have a powerful role in shaping the global economy

global aggregate demand. In the words of the Washington communiqué, the members of the G20 agreed to “use fiscal measures to stimulate domestic demand to rapid effect, as appropriate, while maintaining a policy framework conducive to fiscal sustainability”.

A clear mandate

The efficacy of this commitment is supported by the observation that the countries that pursued fiscal policy most aggressively enjoyed the best economic performance subsequent to the summit. Here, too, the collective element was essential. Any country unilaterally increasing demand ran the risk of incurring excessive debts and, in the case

of small economies, having much of the demand effect fall outside the country. Hence the case for collective action.

Finally, the 2008-09 summits provided a clear mandate for strengthening financial regulatory cooperation. This is essential, if the unacceptably poor performance of financial regulation is to be addressed. National efforts, no matter how determined, confront the problem of how to deal with supranational institutions that are literally too big for their home countries to save.

There is also the ever-present risk of races to the bottom, and the perennial conundrum of how to resolve cross-border institutions. While none of these issues has been resolved

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in the past three years, considerably more progress has been made than would have been made in the absence of the G20.

The good news since the London G20 is that the sense of crisis that pervaded the global economy has lifted to an important extent. Growth is established almost everywhere in the world with the exception of Europe. And Europe’s problems, while posing global risks, are understood as having their roots in local policy failures.

Unfortunately, with the removal of a sense of crisis, the G20 has become less effective in driving global policy. Recent meetings have emphasised that national policies must respond to national conditions. While a truism, this principle also points towards mutual satisfaction with uncoordinated steps. Worse, the emphasis on demand that was present in 2009 has given way to traditional clichés about sound fundamentals and the like. As a result, it is hard to point to anything since London that would not have happened if the G20 had never been created.

All of this makes the G20 summit in Mexico especially important. The European situation is once again at a critical juncture. The US economy has again not achieved escape velocity. Japan appears to be struggling, and there are worrying signs in both China and India.

Governments throughout the industrialised world are on an unsustainable financial trajectory. And, increasingly, the rewards of what economic success has achieved are going disproportionately to a small minority of the population. There is a hunger for a demonstration that the complex global economy can be managed, amid increasing scepticism.

A successful G20 summit, like those in Washington and London, would take concrete steps that point towards more growth. It would engender confidence that would make growth more likely. A G20 communiqué that read like a cliché would be highly dispiriting. The world will be watching. ■