



A development agenda for the G-20

Rajiv Kumar

>> The G20 has come a long way from its inception as a group of finance ministers and central bank governors, formed in the wake of the Asian financial crisis. Its initial agenda was limited. It was established as a forum for encouraging the adoption of the Washington Consensus by Asian and other emerging economies in order to prevent another financial sector meltdown. This objective was perhaps over-achieved. The need to demonstrate global solidarity and collective action in tackling the financial crisis and subsequent global recession led to the resurrection and elevation of the G20 to Summit level in November 2008. Collective action by G20 leaders helped to unfreeze global financial markets, prevent the recession from turning into a depression and engender a quick recovery.

The declarations at the end of successive summits in Washington (November 2008), London (April 2009) and Pittsburgh (September 2009) gave credence to the idea of the G20 having emerged as the principal global forum for financial and economic governance. This was reinforced by the establishment of several working groups covering the entire range of issues at the heart of the present crisis. The inclusion of development issues in the agenda for the G20 Summit in Seoul in November 2011 apparently marks a new stage in the group's evolution. The objective is to give greater legitimacy to the G20 and ensure greater attention to global equity concerns.

This policy brief makes two central arguments. Firstly, while it is important to include development issues in the G20 agenda, this could be done with greater impact once the future existence and efficacy of the group is ensured. Secondly, the G20 should focus on a selective number of development issues related to critical constraints to achiev-



This policy brief forms part of a project undertaken jointly by the Club of Madrid, FRIDE and the government of Korea, with the support of the German Marshall Fund of the United States, the Friedrich Ebert Stiftung and the Korean Institute for International Economic Policy.

»»»» ing rapid, equitable and sustainable growth in developing economies. Otherwise, by spreading itself too thinly, it risks becoming yet another layer in the hierarchy of agencies overseeing global efforts for promoting development.

THE G20'S RELEVANCE

Following the 2010 G20 Summit in Toronto, the continued relevance of the G20 is unclear. The communiqué released at Toronto differs from those issued after previous summits, as it does not present a common stance of all G20 members on major global issues. It seems that like the G8, the G-20 is unable to bridge the differences in member states' approaches to handling the recovery. Members are attempting to go their own way in continuing with or exiting from the fiscal stimulus, depending on their national circumstances. It appears that collective action is limited: there was disagreement over issues in the financial sector, such as imposing a tax on banks for funding future bail-outs. The UK and the US have both gone ahead with their own measures for improving financial sector regulation without waiting for the final recommendations from the expanded Financial Stability Board. Where trade and protection are concerned, there is precious little cooperation, other than once again repeating the desirability of completing the Doha Round – but with no suggestions of how to do so. It will be difficult to convince the leaders of G20 member countries of the forum's continued usefulness. It seems that the G20 is suddenly in need of a major boost in order to achieve greater coherence and relevance.

The choice of maternal and child nutrition as the principal theme for the G8 Summit at Huntsville, close to Toronto, just one day before the G20 Summit, was rather odd, as it undercut the very *raison-d'être* of the G20 Summit. In order for the G20 to emerge as the principal forum for addressing global economic and financial issues, the G8 must remove these issues from its agenda. This does not seem to be happening, however. Moreover, given that the political situation sets the essential context for economic and financial issues, it is perhaps arti-

ficial to discuss political and economic issues in separate forums and not expect any overlap. If the G20 is to emerge as the new 'high table' for global issues, political and security issues need to be brought within its purview - rather than taking financial and economic issues back to the G8, as was apparently done in Toronto. Greater clarity will perhaps be achieved in the next round of G8 and G20 meetings, to be hosted by France in 2011, but for the moment, the continued relevance of the G20 remains uncertain.

To guarantee the continued relevance and evolution of the G20 as a global forum, its legitimacy and credibility must be ensured. It is sometimes argued that the G20's legitimacy is questionable as it is a self selected grouping, which cannot claim to be representative of the global community. Suggestions for achieving greater legitimacy range from establishing objective criteria for membership; implementing a system of constituencies; or expanding the membership to reflect a more balanced geo-strategic composition. These suggestions are an attempt to formalise the G20, and therefore strike at the very basis of the formation that is by definition and design an informal group which does not want to either replicate or substitute the United Nations or its organs. The trade-off between representation and formal authority, on the one hand, and efficiency, on the other, has been well recognised. For informal groups like the G20, legitimacy is necessarily derived from their ability to deliver on their chosen mandate and objectives.

Legitimacy for the G20 will therefore come from implementing the decisions taken by the leaders at successive summits. Thus, the crucial issue is to ensure the necessary follow-up of the decisions and their implementation in a timely manner. The G20's record on this score is rather patchy. Its major achievements have been the trebling of the IMF's capital base, the growth of the Asian Development Bank's capital base and increasing the voice and vote of emerging and developing economies by 5 per cent in the World Bank. However, areas in which the G20 has been less successful include the lack of ostensible progress on the

Doha Round despite repeated exhortations; the emergence of new forms of ‘messy protectionism’; an inability to break the status quo on the reform of the IMF’s governance structure; and a lack of unanimity regarding banking sector reforms, including the inability to agree on either a tax on banks or a uniform set of counter-cyclical prudential or capital provisioning norms. The process of multilateral surveillance for achieving balanced economic growth has also only just begun, and here again major economies seem to be opting for their own national solutions.

If the G20 is unable to improve its implementation record, both its legitimacy and credibility will be significantly damaged and the forum will rapidly lose relevance. It is therefore critical that leaders focus on these existential issues, making them an

Adding development issues to the G20 agenda will be useful only if the group is perceived as effective in implementing its objectives

immediate priority. They should pay far greater attention to establishing implementation and follow-up mechanisms, as well as addressing the issue of whether or not to establish a secretariat. It would be wise to consider creating an appropriate incentive structure that will produce greater compliance with collective decisions among member countries. Adding development issues to the G20 agenda will be useful only if the group remains relevant and is perceived as effective in implementing its objectives.

A DEVELOPMENT AGENDA FOR G20

South Korea has taken the initiative to put ‘development’ as a separate item on the agenda for the summit in Seoul in November 2010, with President Myung-bak Lee first spelling out the priori-

ties in his address at Davos. However, it is worth noting that, despite their preoccupation with the global financial crisis, G20 leaders also referred to development issues in earlier summits. The rationale for including them is to try and achieve a more balanced outcome from globalisation and improve equity both across countries and within each economy. This will make the G20 more relevant and acceptable to developing economies, which are not included in the grouping. Promoting the development agenda will help accelerate growth in developing economies and reverse the trend of worsening equity across countries, which has been evident over the past three decades. Without such ‘convergent growth’, the G20 will be perceived as an expansion of the rich nations’ cartel to maximize the benefits from globalisation to the detriment of poorer countries. This will engender large-scale opposition, the beginnings of which were discernible in Toronto. This provides a compelling rationale for the G20 to prioritise development issues.

On the other hand, there is a danger that the development agenda being suggested for adoption by the G20 is too large and precludes effective follow up or implementation. It has been proposed that the G20 should oversee practically the entire range of development activities. This includes the building of physical infrastructure; human resource development; poverty alleviation measures; raising agriculture productivity; improved effectiveness of development aid; better management of water resources, labour standards and employment issues; and adoption of measures for mitigation of the impact of climate change.

This is far too ambitious and impractical an agenda for a Summit-level forum. Moreover, it duplicates the mandates of existing multilateral organisations such as the World Bank, Regional Development Banks and UN agencies.

There are, however, three development issues where the G20 could play an effective role. First, it could take up the issue of global aid architecture and the adoption of globally accepted norms for channelling aid flows from old and new



4

»»»»» donors. Presently, these issues are overseen by the Development Assistance Committee (DAC) of the OECD, which has tried through the Paris Declaration and the Accra Action Programme to devise some global benchmarks for donors. However, large emerging economies like Brazil, China, India and Turkey have now become major donors, but they are not party to DAC initiatives as they are not OECD members. This prevents effective coordination and in some cases could work against the implementation of desirable sanctions against truant governments.

On the other hand, nearly all existing DAC members (perhaps excepting Sweden and Japan) are failing to fulfil their own pledge to allocate 1 per cent of their GDP to development aid. Apparently, there is insufficient peer pressure within the DAC to make them uphold their commitment. Such an issue, where the global community would benefit from greater coordination between emerging and advanced economies, and which requires a degree of ‘naming and shaming’ to encourage accountability, would be ideally suited for adoption by the G20. However this would naturally be conditional upon the G20 resolving its existential problems by building credibility and acquiring legitimacy. For example, a coordinated G20 effort to improve the volume, design and delivery of development aid for sub-Saharan Africa and the poorest countries in Asia would surely result in a win-win outcome. It could lead to higher allocations by the advanced economies; greater compliance with governance norms on the part of new donors and more effective coordination of the delivery of aid programmes on the ground. This in turn would help raise incomes and accelerate growth in Africa and in the least developed economies, providing much-needed impetus to global economic activity.

Second, the G20 must take up the issue of developing new norms for the transfer of technology that are less onerous for the least developed economies. This should also be extended to cover emerging green technologies across the entire spectrum of goods and services. The issue of access to necessary and green technologies has long divided the global community into ‘Us and

Them’, or ‘Owners and Users’. These divisions are particularly harmful in terms of technologies needed to overcome the consequences of extreme poverty (for example malnutrition, illiteracy and high mortality rates) and addressing climate change issues. By agreeing to a collective approach towards and action on these issues, the G20 could help to reinforce the message that, when it comes to tackling global public threats, we are all ‘in it together’.

Third, it is becoming increasingly clear that the existing asymmetry between near-complete freedom and flexibility of movement of capital across national borders and highly restricted movement of migrants across the same borders is no longer tenable if globalisation is to succeed and deliver on its promise of convergent growth. The argument against labour mobility across national borders is based on the rather out-dated notion of maintaining a degree of social and cultural homogeneity in a world which is increasingly a global village. In this era of high connectivity thanks to faster travel, the internet and collapsing economic borders owing to multilateral or bilateral comprehensive economic cooperation agreements, this is an increasingly archaic understanding.

Every segment of the global economy will have to increasingly reflect the pluralistic nature of the global community and be equipped to handle it. This is the only way forward if a clash of civilisations is to be avoided. Moreover, we cannot expect to receive the full benefits from globalisation if two major factors of production (technology and human resources) suffer from restricted mobility. As mentioned above, this restricted mobility of labour and technology can also be seen as responsible for the increasing inequity and lack of convergence that currently characterises the global economy.

These three development issues warranting the G20’s attention are somewhat controversial, with major implications for both advanced and emerging economies. There are no rapid solutions to these concerns. But they are critical to the future success of the global community in confronting

negative realities including climate change, human and drug trafficking and pandemics. By accepting the essential multiethnic and increasingly pluralistic nature of the global community and of its constituents, we can engender the necessary spirit of collective responsibility and accountability. The present divide between 'Us and Them' that characterises all global forums will only begin to dissipate if there is some progress towards freer movement of human capital and skills across borders. In any case, with rapidly ageing populations in a number of advanced economies, this phenomenon may soon be upon us. It is surely wiser for a global body like the G20 to anticipate this difficulty and take the necessary preparatory action.

The G20 is the appropriate forum for taking on such challenging issues. They require collective political will that the G20 alone can achieve. They are more important than the other development issues that are currently being proposed for adoption by the G20 which are fairly routine in nature and better left to other organisations.

Rajiv Kumar is Director of the Indian Council for Research on International Economic Relations