

Deutsches Institut für  
Entwicklungspolitik

German Development  
Institute

d·i·e



# G20 and Global Development

How can the new summit architecture promote  
pro-poor growth and sustainability?

*Thomas Fues / Peter Wolff (Editors)*

## G20 and Global Development

How can the new summit architecture promote  
pro-poor growth and sustainability?

Thomas Fues / Peter Wolff (eds.)

Bonn 2010

German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

The German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) is a multidisciplinary research, consultancy and training institute for Germany's bilateral and for multilateral development co-operation. On the basis of independent research, it acts as consultant to public institutions in Germany and abroad on current issues of co-operation between developed and developing countries. Through its 9-months training course, the German Development Institute prepares German and European University graduates for a career in the field of development policy.

**Thomas Fues** is head of the Training Department at the German Development Institute in Bonn. His main research interests are global governance, rising powers, United Nations and international development cooperation.


E-mail: [thomas.fues@die-gdi.de](mailto:thomas.fues@die-gdi.de)


**Peter Wolff** is head of the Department "World economy and development financing" at the German Development Institute in Bonn. His recent work focuses on the consequences of the global financial and economic crisis for the developing world and for global economic governance.

E-mail: [peter.wolff@die-gdi.de](mailto:peter.wolff@die-gdi.de)

© Deutsches Institut für Entwicklungspolitik gGmbH

Tulpenfeld 6, 53113 Bonn, Germany

 +49 (0)228 94927-0

 +49 (0)228 94927-130

E-mail: [die@die-gdi.de](mailto:die@die-gdi.de)

<http://www.die-gdi.de>

## Contents

### Abbreviations

Introduction <i>Thomas Fues / Peter Wolff</i>	1
G20 and the development agenda <i>Jin Fang</i>	9
Global development beyond the North-South paradigm <i>Adolf Kloeke-Lesch / Colin Gleichmann</i>	13
Towards a comprehensive and inclusive development agenda for G20: Lessons from the Heiligendamm-L'Aquila Process (HAP) <i>Ernesto Soria Morales</i>	18
Thoughts on an action plan for the Working Group on Development at the G20: Towards the Seoul Summit <i>Máximo Romero</i>	22
A new Seoul Consensus on Development: The G20 needs to reconcile effective ODA with emerging country economic cooperation <i>Uwe Wissenbach</i>	26
G20: Sharpening the focus on global development <i>Leena Srivastava</i>	29
Future directions for the G20: Towards legitimacy and universality <i>Richard Jolly</i>	32
G20 and global governance: A new “new deal” for the global poor! <i>Ashwani Kumar</i>	36
Formalizing the G20 regional outreach contact groups and civil G20 <i>Yulius P Hermawan</i>	40
Identifying the G20’s strengths in dealing with global development <i>Aldo Caliari</i>	44
G20 and development: Reforms in the international economic system <i>Manmohan Agarwal</i>	48
Rising above political boundaries may hold the key to G20 success <i>Vinay Kumar Singh</i>	51
Pro-poor development: G20’s political and ethical responsibility <i>Gabriela Sánchez Gutiérrez / Pablo Yanes Rizo</i>	54

Democratic economics and improved governance: Development policies for the G20 <i>David Mayer-Foulkes</i>	57
G20 and global governance: Challenges and impacts <i>Haibing Zhang</i>	61
Is there a Brazilian strategy for the G20? <i>Alexandre de Freitas Barbosa / Ricardo Mendes</i>	64
Possible impacts of the G20 on developing countries <i>Youfa Liu</i>	68
How should the G20 promote efforts for South-South cooperation and trilateral activities? <i>Helmut Reisen</i>	71
Africa in the G20? <i>Gilbert M. Khadiagala</i>	75
Africa and poor countries must be central to the G20's Seoul development agenda <i>Garth le Pere</i>	78
How to help rather than hinder: The G20 in global development <i>Gregory Chin</i>	81
Can Korea be a bridge between developing and developed countries in the G20 and beyond? <i>Thomas Kalinowski</i>	85
G20 summit meeting: The development agenda and what is missing <i>Eun Mee Kim</i>	89
G20 and development: A view from Pakistan <i>Khalida Ghaus</i>	93
The global development agenda at G20: Rationale and the way forward <i>Durgesh K. Rai</i>	96
G20 and a new era for "development" <i>Martina Kampmann</i>	99
<b>Authors</b>	<b>103</b>

## Abbreviations

AAA	Accra Agenda for Action
ADB	Asian Development Bank
AFDB	African Development Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
AU	African Union
BOP	Balance of Payments
BRIC	Brazil, Russia, India and China
CEO(s)	Chief Executive Officer(s)
COP	Conference of the Parties
CSO	Civil Society Organization
DAC	Development Assistance Committee
DCF	Development Cooperation Forum
DIE	German Development Institute / Deutsches Institut für Entwicklungspolitik
E 11	Emerging Eleven
EU	European Union
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FSB	Financial Stability Board
FTT	Financial Transaction Tax
G20	The Group of Twenty
GA	General Assembly
GDP/PC	Gross Domestic Product/Per Capita
GGRN	Global Governance Research Network
GNP	Gross National Product
HAP	Heiligendamm-L'Aquila Process
HDI	Human Development Index
HDP	Heiligendamm Dialogue Process
HIV/Aids	Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome
HLF	High Level Forum on Aid Effectiveness
HLWGD	High Level Working Group on Development
IATI	International Aid Transparency Initiative
IBSA	India, Brazil and South Africa
IFIs	International Financial Institutions
ILO	International Labour Organization
IMF	International Monetary Fund
IsDB	Islamic Development Bank
LA	Latin America

LaBL	Lighting a Billion Lives
LDCs	Least Developed Countries
LICs	Low-Income Countries
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
Mercosur	Mercado Común del Sur
MNEs	Multinational Enterprises
NAFTA	North American Free Trade Agreement
NAM	Non-Alignment Movement
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OSCE	Organization for Security and Co-operation in Europe
PCG	Presidential Committee for the G20 Summit, Republic of Korea
REDD	Reducing Emissions from Deforestation and Forest Degradation in Developing Countries
R&D	Research & Development
SAARC	South Asian Association for Regional Cooperation
SME	Small and Medium Enterprises
SSA	Sub-Saharan Africa
SSC	South-South Cooperation
SWF	Sovereign Wealth Funds
TCDC	Technical Cooperation among Developing Countries
TERI	The Energy and Resources Institute, India
TNCs	Transnational Corporations
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDCF	United Nations Development Cooperation Forum
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
US	United States
USD	US Dollar
WP-EFF	Working Party on Aid Effectiveness
WTO	World Trade Organization

## Introduction

*Thomas Fues / Peter Wolff*

### **The G 20 adopts a development agenda**

It seemed like a logical step when, at the Toronto Summit in 2010, the G20 decided at the level of heads of state and government to establish a working group on development, and this mainly for two reasons: firstly, the G20 wants to avoid losing its relevance now that a global economic meltdown has been successfully avoided and re-regulation of global financial markets has proven to be a tricky business with little political reward. With that in mind, the group has shifted its focus from tackling the short-term impact of the financial crisis to issues of long-term global development, with “strong, sustainable and balanced growth” as the overarching objective for a post-crisis world.

Secondly, even as the G20 establishes itself more and more as a lasting fixture at the apex of the global system, its legitimacy and authority is increasingly being challenged by excluded nation-states from the South and North: 23 smaller and medium-sized countries in a diverse alliance which goes by the acronym of “3G” (Global Governance Group) have recently lodged a formal protest with the UN Secretary-General (UN 2010). Under the leadership of Singapore, this ad-hoc group resents the new manifestation of “club governance” and insists instead on the premier role of the United Nations in global deliberations and decision-making. Representatives of non-member developing countries in particular have become suspicious of the new summit architecture, since they do not see their interests adequately represented (Cooper 2010; Deen 2010; Payne 2010; Suruma 2010). Such charges are particularly hard to swallow for the rising powers within the G20, since their membership in and allegiance to the G77/China, i.e. the bloc of developing countries, has traditionally been a pivotal element of their national identity and foreign policy. It is only natural then that the G20 should try to silence such criticism by taking a comprehensive development agenda on board.

This broadening of focus signals an important shift in the G20’s mission towards the developing world (Chandi et al. 2010; Kharas 2010). By extending the notion of balance to the task of closing the gap between advanced and developing countries, it reflects the growing commitment of G20 member states to take on sweeping responsibilities for universal well-being and the global public good. Until today, the G20 has addressed the concerns of developing countries only in the form of certain narrowly-focused initiatives which reflect its own objectives and approaches to traditional development policy. It has focused, for example, on financial inclusion, food security, and the MDGs (Millennium Development Goals). It is to be expected that the G20 summit in Seoul in November of 2010 will prepare the ground for a more holistic development agenda that reinforces the ongoing processes of global sustainable development and complements them with focused action plans based on the economic and political clout of the G20.



The 26 original contributions compiled in this electronic publication come mostly from the Global Governance Research Network (GGRN), which the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) has initiated with key partners from the global South in order to provide an open platform for the analysis of current world trends with particular relevance to developing countries. Taken together, these analytical contributions provide a wide range of insights and practical suggestions on how the G20 could become an effective force for global development. The overwhelming majority of the authors takes a positive, albeit somewhat guarded, stand on the existence and usefulness of the G20 as such. However, not all of the authors are unreservedly in favour of an extended development mandate for the G20, but rather point to the United Nations as the proper channel for such topics.

We feel that it is important to address the fundamental issues of legitimacy and representativeness while pragmatically exploring the possible value-added element which the G20 might generate towards pro-poor growth and sustainability in developing countries. In the long run one might hope that the G20 would be embedded in an inclusive framework of global governance under the umbrella of the United Nations. We will now briefly refer to each contribution in this collection and selectively highlight a few of the key findings. The final section will draw some summary conclusions and sketch our tentative vision for a strategic engagement of the G20 toward global development challenges.

### **Beyond the old North-South divide**

In echoing the official position of the G20, *Jin Fang* states that without effective development in the majority of developing countries there will be no balanced growth in the world economy. In order to facilitate broad-based development, the G20 should promote free trade and foreign direct investment while taking a stringent stance on short-term cross-border capital flows. When acting collectively, the G20 should work through existing multilateral institutions such as the World Bank, the International Monetary Fund (IMF), and regional development banks rather than setting up a new organization. These institutions, however, must be reformed so as to better reflect the new realities of the global economy. The author also points to the need for common guidelines that G20 members should agree upon and follow in their bilateral development cooperation programmes with developing countries.

The broadening of the summit perspective and the participation of several large developing countries in shaping the G20 agenda signals a new approach to global development beyond the old North-South divide, as *Adolf Kloke-Lesch* and *Colin Gleichmann* emphasize. Development policy is now understood as a major pillar of global public policy, where common objectives, approaches and standards could replace the dominant system of the post-colonial aid-giving mode, with Official Development Assistance (ODA) at the core of the system. The authors assert that the emergence of the G20 “may turn out to be as significant as the collapse of the bipolar world order after the fall of the Berlin Wall”.

*Ernesto Soria Morales* explores lessons to be derived from the Heiligendamm-L'Aquila Dialogue Process (HAP), a short-lived outreach effort of the G8, for the G20. Building on these findings, he sees hope for a similar G20 dialogue that would lead to an “integrated, strategic framework for global development, built on common ground with core development principles.” Also drawing from his practical experience in the HAP, *Máximo Romero* argues that G20 members should not limit their discussions to the Paris Declaration (2005) or the Accra Agenda for Action (2008), but should rather include other important UN documents, such as the Doha Declaration on Financing for Development (2008) in their search for a shared framework of international development cooperation.

*Uwe Wissenbach* specifically refers to the conditions which must be met in order to arrive at “functional multilateralism on the basis of shared and jointly defined interests and objectives”. Leaving behind the ideational construct of a normative consensus, the G20 should instead concentrate on a pragmatic framework which builds on different approaches and experiences for sustainable global development. With a similar practical outlook, *Leena Srivastava* provides an example of down-to-earth South-North-South cooperation, namely technology-based partnerships for universal access to energy. She is convinced that the promotion of social entrepreneurs at the bottom of the pyramid can become a cornerstone for an effective G20 development agenda.

### **Inclusiveness and legitimacy**

The representational weakness of the G20 is critically assessed by *Richard Jolly*, who also deplores that the G20 has few links with the UN, in contrast to its very strong institutional links with the IMF and the World Bank. One result of this bias might be that the crisis-funding decisions of the G20 have mainly benefited the emerging countries themselves, with few new financial commitments to low-income countries. He therefore supports the call for a Global Economic Coordination Council within the framework of the UN system as a democratic alternative to the G20. *Ashwani Kumar* also comes out with a principled rejection of the G20, whose main purpose he sees in “promoting and protecting the globalization of capital”. Nevertheless he could imagine a positive role for the new summit architecture if it would establish a “Global Vulnerability Fund” that focuses on the real problems of the global poor.

*Yulius P Hermawan* looks at the outreach activities of the G20 since its inception and explores the scope for taking non-members on board through more formal mechanisms. He points to the fact that consultations with non-members as well as with civil society groups traditionally have very much depended on the summit hosts' initiative. He suggests a regional and interregional approach through the establishment of regional contact groups such as the ASEAN-Indonesia-G20 contact group as well as more formal links to the UN and regular consultations with civil society. *Aldo Caliari* argues that it is not the number of countries around the G20 table which matters most but rather the lack of mechanisms for representation of a broader membership. He therefore suggests that the G20 should not endeavour to play the role of a regular global institution but should rather retain its informal

character, which is an asset, and look at development issues in a more holistic way, relying on specialized institutions within the system for testing and subsequently implementing the G20's proposals.

### **Reform of global economic governance**

The increased political and economic weight of the rising powers has strengthened the call for substantive reforms in global economic governance. In his far-reaching proposal for an overhaul of the IMF, *Manmohan Agarwal* advocates a new majority rule for the organization. Trust in the IMF can only be regained if its policies are formally supported by a majority of developing countries. This would imply that the entire system of conditions attached to IMF loans and their underlying philosophy would have to be transformed in order for it to respond to the development needs of the global South. *Vinay Kumar Singh* joins the criticism of the IMF in pointing to the oversight deficit for which the organization is responsible regarding international financial markets. According to his assessment, tax havens, opaque banking practices, and reluctance to cooperate in transnational financial regulations and investigations have been root causes of the recent financial crisis and urgently need to be addressed by the G20.

Along similar lines, *Gabriela Sánchez Gutiérrez* and *Pablo Yanes Rizo* present a comprehensive catalogue of principles for a more equitable global economic order, including a resource transfer of one per cent of Gross National Product (GNP) from developed to low-income countries and the introduction of a financial transactions tax to be administered by the United Nations. With regard to South-South cooperation, the authors call on civil society organizations to play a watchdog role in order to ensure the overall quality and poverty-orientation of programmes. Following a slightly different approach, *David Mayer-Foulkes* concentrates on the challenges which the G20 faces in dealing with globalized corporate power. He speaks out for uniform standards in taxing and regulating transnational corporations in order to generate the indispensable public investments that could “democratise and revitalise the global economy.”

### **The role of the rising powers in the G20**

The formation of the G20 has been the consequence of a gradual shift from the old world of the G8 to the rising weight of the emerging countries in the world economy. However, as *Haibing Zhang* illustrates, the G20 constitutes more of a challenge than an opportunity for emerging countries, since it not only offers a platform for exerting influence but also gives greater responsibility to new members from the developing world. The author expresses her suspicion that the G20 may be nothing more than a new tool of the G8 for controlling the world economy. For *Alexandre de Freitas Barbosa* and *Ricardo Mendes*, the G20 reflects the end of the historical hegemony of Western countries over the globe in contrast to the G8's former outreach efforts, which did not challenge the dominance of advanced countries. Since the rising powers have now been brought successfully into the system, the authors

do not foresee a risk of North-South confrontations within the G20. They rather assume an increasing potential for substantive differences among the developing member states. *Youfa Liu* articulates a different position in this regard by emphasizing the historic opportunity for forging unity among developing countries within and beyond the G20. Accordingly, he wants the developing countries to utilise the G20's mechanisms in order to push the developed countries towards an accelerated transfer of technology, including the provision of adequate funding.

The specific nature of present South-South cooperation, in which aid is not separated from other instruments such as trade and investment, leads to potential conflicts of interest among G20 members, particularly regarding rights to the extraction of exhaustible resources. In order to circumvent areas of potential dispute, *Helmut Reisen* suggests that the G20 should concentrate on issues of converging interest, such as facilitating South-South trade, stimulating triangular cooperation in infrastructure investment, and developing a normative framework for the new types of comprehensive intervention which are typical of South-South cooperation.

### **Africa in the G20**

Because it suffers from a marginal position in global affairs despite its population of one billion and its geographical diversity, Africa is too often preoccupied with the question of better representation in institutions of global governance, states *Gilbert M. Khadiagala*. What is more important in his view is the real outcome of global policies on the continent. Judging from the historical evidence of G8 summits, he is sceptical about the G20's determination to provide assistance and concludes that "some in Africa view the G20 as part of the perennial proliferation of international instruments and institutions that are long on promises and short on delivery."

*Garth le Pere* raises some fundamental questions about the *raison d'être*, mandate and objectives of the G20 and its role in the "highly contested global governance of development". He points to the fact that the G20 has not yet developed a strong African focus as the G8 had done previously. But he also fears the "pledge paradox": the more often commitments are made, the less often they are implemented. As an informal mechanism for complementary multilateralism, the G20 should in his view take the lead in becoming a global norm entrepreneur by "crowding in" the "new" donors and establishing a universal framework of standards and principles for international development cooperation.

### **What should be included in the G20 development agenda?**

*Gregory Chin* asks for a "new brand" of development, one that focuses on growth, employment, investment and private sector development and emphasizes avoiding and mitigating economic crises. This would also focus on global rules which would be in favour of developing countries, e.g. by ensuring universal access to markets for the exports of least developed countries. It would furthermore entail new modes of financing infrastructures as well as a

meaningful anti-corruption agenda. There is some scepticism in his perspective, however, concerning whether a lack of “like-mindedness” among the G20 members will prohibit the new summit architecture from exercising the kind of global leadership which would be required if a serious consensus on policy directions and burden sharing is to be reached. The issue of the reduction of fossil fuel subsidies in all G20 member countries could serve as a litmus test for their willingness and capacity to act decisively.

It will rest to a considerable extent on Korea as the host of the November 2010 summit to determine the scope and the substance of the G20 development agenda. *Thomas Kalinowski* takes a critical look at Korea’s – in his view – problematic approach to the development agenda, with its emphasis on economic growth without adjectives (such as pro-poor and sustainable) and its subordination of other ingredients of development to growth. He also raises the pertinent question about the extent to which the Korean economy’s highly competitive position within the global economy may explain Korea’s strong support of open markets and be detrimental to the interests of less efficient developing economies. *Eun Mee Kim* supports the view that a human face is missing in the guiding principles of the G20 Working Group on Development. In particular, women’s issues are part of the economic challenges that the G20 should address. She calls for a strong commitment towards the MDGs and comprehensive social development as the core of the G20 agenda. Similarly, *Khalida Ghaus* submits that universal equity as well as social and economic security in a global perspective should become key concerns of the G20 without a diminution of respect for national development priorities and strategies.

*Durgesh K. Rai* puts special emphasis on the funding of infrastructures as a key prerequisite to long-term growth, but also highlights the significance of knowledge sharing and capacity building as priority concerns for the G20 development agenda. As *Martina Kampmann* reminds us, all G20 activities for global development should be conceived and implemented in a way which does not lead to overlaps with existing initiatives and institutions. In order to facilitate a larger degree of coherence in international development cooperation, the author notes the potential of hybrid programmes which link multilateral organizations with bilateral implementing actors.

## Conclusions and outlook

As the contributions to this publication attest, scholarly opinions about the G20 and its relevance for global development are highly divided in both South and North. A particular issue of controversy relates to the role and identity of developing member countries, which is very fluid and malleable at this stage. Most emerging countries still have a complex domestic development agenda with large pockets of poverty to be tackled, and their interests do not coincide necessarily either with those of the poor developing countries or among themselves. It remains to be seen how the rising powers will use their influence to build a development agenda which is different from what has been on the table before. It will also be interesting to see how these nation-states will use their increasing influence in the institutions of global economic governance (International Monetary Fund, World Bank, World Trade Organiza-



tion etc.) and whether they will strengthen those institutions as pillars of global public policy or will rather weaken them in favour of unilateral approaches and selective alliances driven by narrow national interests.

In view of the complex institutional structure of international development and the greater legitimacy of the UN in the view of many developing countries, the G20 might be well advised to address the issue of division of labour among the major institutions and levels of international governance, along with mechanisms of design coordination. In its action-oriented development, efforts should concentrate on a few critical issues (trade, corruption, finance, food, fossil fuel subsidies etc.) which require the consensus and the commitment of the leading economies, rather than being spread too thinly and creating merely another layer in an already overly complex institutional structure.

In setting itself up as a relevant actor for global development, which most of the authors of this publication find desirable, the G20 should not get caught up in aspirational declarations or in operational programmes. Instead, and in close consultation with the United Nations, the new summit architecture should concentrate on a strategic role in designing a global framework for pro-poor growth and sustainability in developing countries. In this, three focal areas are of paramount importance:

- a) The G20 should assume overall responsibility for a coherent policy of development with regard to key areas of the global economy, such as trade, financial markets, and cross-border investment.
- b) The G20 should define a focused list of global public goods, including the MDGs, and should agree on a related order of priorities.
- c) The G20 should reach a consensus on sharing burdens in relation to the financing of global public goods, including the introduction of innovative financial instruments.

Beyond such a substantive focus, the G20 should quickly resolve important institutional and procedural questions, for example by including the UN and regional organizations in its deliberations, establishing a permanent secretariat, and providing institutionalized dialogue channels for non-state actors from civil society and the business sector.

If the Seoul Summit makes progress on these open questions, the G20 can become a relevant and effective actor in the global development system. It is to be hoped that the insights and recommendations provided in this publication can contribute to the search for a meaningful role of the G20 in promoting pro-poor growth and sustainability for developing countries and the planet as a whole.

**Bibliography**

- Chandy, L. / G. Gertz / K. Dervis* (2010): Institutional development: how the G-20 may help the world's poor, 12 April, Washington, DC: The Brookings Institution
- Cooper, A.* (2010): The G20 as an improvised crisis committee and/or a contested 'steering committee' for the world, in: *International Affairs* 86 (3), 741–757
- Deen, T.* (2010): G20: Big powers under scrutiny by smaller nations, in: *Inter Press Service* 23 March, New York: IPS
- Kharas, H.* (2010): Passing the development football from the G8 to the G-20, in: P. Blustein et al., *Recovery or relapse? The role of the G20 in the global economy*, Washington, DC: Brookings Institution, 10–12
- Payne, A.* (2010): How many Gs are there in 'global governance' after the crisis? The perspectives of the 'marginal majority' of the world's states, in: *International Affairs* 86 (3), 729–740
- Suruma, E.* (2010): It's time for Africa's voice in the G-20, in: P. Blustein et al., *Recovery or relapse? The role of the G20 in the global economy*, Washington, DC: Brookings Institution, 13–14
- UN (United Nations)* (2010): Letter dated 11 March 2010 from the Permanent Representative of Singapore to the United Nations addressed to the Secretary-General, UN doc. A/64/

## G20 and the development agenda

*Jin Fang\**

### **Adopting a development agenda is consistent with G20's long term objective**

The world economy has gradually recovered from the depth of international financial crisis two years ago. Yet, challenges still remain. G20 should therefore shift its focus from tackling the short-term impact of the financial crisis to its long-term objective, which is achieving strong, sustainable and balanced growth in the world economy. Adopting a development agenda is certainly an integral part of accomplishing that objective.

China has long held the view that the real imbalance in the world economy is the imbalance in development, with the North being rich and privileged and the South poor and disadvantaged. Without effective development in the majority of developing countries, there will be no balanced growth in the world economy.

The growth experience in the developing world has been very uneven and volatile. During the 1980s and 1990s, except East Asia, the shares of other developing regions in world's total GDP stagnated or even contracted, especially of Sub-Saharan Africa and the Commonwealth of Independent States, and the number of people living in poverty in the world actually rose as a result. Only in mid-2010 did we see a truly across-the-board growth in all the major economic regions and most of the developing countries in the world. But it was disrupted subsequently by the international financial crisis.

As the epicenter of the financial tsunami, many developed countries were hit hard by the crisis, especially those with severe property price bubbles and significant exposure to toxic financial assets. It will take years, if not decades, to repair the balance sheets of affected financial institutions and households, and the ability to grow the economy through credit expansion will be seriously hampered in the developed world. In the long run, many developed countries will be beset by rising fiscal imbalances and aging population, thus unlikely be the engine of growth for the world economy as they were in the past.

The question then is, can developing economies maintain high growth rates under such circumstances and even become the engine of growth for the world economy in the future? The answer is a qualified yes. After years of institutional reform and increasing participation in the international market place, the economic fundamentals of most developing countries have improved significantly. Many developing economies have learned their lessons from the past and managed their fiscal and financial affairs quite prudently before this international financial crisis. As a result, they were affected less severely than in previous crises and stand ready to gain from the recovery of the world economy.

---

\* The opinions expressed in this essay are the author's alone and do not represent those of the Development Research Center of the State Council or the Chinese Government.



The role of big emerging market economies is particularly important as these countries are in the midst of rapid industrialization and urbanization processes and, because of their size, they can act as engines of growth, at least regionally. Their demand for raw material and inputs will mostly benefit other developing economies, and as these economies become more sophisticated and wealthier, their demand for high-end machinery, consumer goods and services will also increase, which, in turn, will mostly benefit developed economies. Consequently, and given the uncertain outlook for the developed economies, our hope for achieving strong economic growth in the world economy rests squarely on developing countries. Adopting a development agenda and helping developing countries grow is certainly consistent with G20's long-term objective.

### **G20 would be a legitimate and effective mechanism for promoting a development agenda**

However, sound economic fundamentals do not automatically guarantee high economic growth. A favourable international environment is also needed as many developing countries still rely heavily on external capital to build basic social and physical infrastructure as well as on outside markets for export and foreign technology to upgrade their industrial structure and combat the challenges of climate change. This is where G20 can come in.

Since the onset of the international financial crisis, G20 has quickly become the leading platform for international macroeconomic and financial policy coordination. As a newly formed global economic governance mechanism, G20 enjoys a certain degree of legitimacy and effectiveness which others lack. G20 is composed of 20 leading economies in the world and represents 2/3 of the world's populations and 90% of the world's GDP. All continents and major economic regions in the world are represented in the G20, of which nine members come from the developed world and the rest from the developing world.

Because of its representativeness and accurate reflection of today's world economic landscape, G20 is a very legitimate economic governance mechanism and also a very effective mechanism if members follow through on their commitments made in the context of the G20. To a certain degree, its limited membership also ensures efficiency in the decision-making and implementation process.

G20 will be particularly effective in pushing forward a development agenda. The developed members are among the world's biggest and richest economies, plus they have the capital and technology to help developing countries grow in a sustainable manner. One thing that makes G20 stand out against other global governance mechanisms is the equal and indispensable participation of developing members in the decision-making and implementation process. Though still facing a host of challenges themselves, these members have more or less achieved some success on the development front, which means they also have the capacity to help fellow developing countries.

Of course, the capacity of the developing members of G20 to help other developing countries is constrained by their domestic development needs and may not match that of the developed members, but they have one advantage that developed countries do not possess: they understand the real need of developing countries and they have lessons and experiences to share. So G20 would be a legitimate and effective mechanism for promoting a development agenda. The next question is how.

### **Measures that the G20 should take to promote a development agenda**

The G20 has already set up a Working Group on Development, which is expected to come up with a concrete plan for further action. Personally, I would like to make the following suggestions for G20 to take to push forward a development agenda.

First of all, G20 should continue to pursue and realize the commitments made in previous summits, especially in the areas of economic recovery, free trade and financial reform. As analyzed earlier, the growth of developing economies needs a favourable international economic environment, which consists of free and open trade as well as stable macroeconomic and financial conditions.

All major economies should continue to coordinate their policy to ensure that economic recovery stays on track, and they should also make serious efforts in correcting imbalances within their own economies. G20 and its members should refrain from taking any further protectionist measures in cross-border trade and investment, and should lead by example in making concessions to jump start the Doha Development Round negotiations. G20 should encourage long term FDI flows to developing countries whilst adopting a more stringent stance against short-term cross-border capital flow, which is of little material benefit to most of the developing countries that lack sophisticated financial markets and regulatory capacity, but can be a destructive force during times of economic stress.

Secondly, G20 should adopt a dual-track approach to promote the development agenda, that is, G20 members can act collectively or individually. When they act collectively, they can work through the existing multilateral institutions such as the World Bank, IMF and regional development banks rather than setting up a new organization to replace them. These institutions have the mechanisms and infrastructure in place and all they need is to reform themselves to better reflect the needs of developing countries and the reality of today's world economic landscape. G20 members should be given the option to act individually in promoting the development agenda, but they should follow certain guidelines that are agreed upon by other members.

Thirdly, G20 should give long term economic growth precedence over short term poverty reduction. In China, we have an old saying: "Teaching other people how to fish is better than giving other people fish." History has shown that the surest way of consistently reducing poverty is through sustained economic growth. G20 should focus on how to help developing countries create long term growth on their own rather than simply giving them aid or debt relief.

Lastly, G20 should engage more developing countries when formulating and implementing the development agenda. To start with, representatives from the stakeholder countries and institutions should be invited for discussion and consultation. Then, the G20 must set up some sort of mechanism where new members can be inducted, which should come chiefly from the developing world. However, in order to maintain efficiency and effectiveness in decision making and implementation, member enlargement should be strict and limited.

## Global development beyond the North-South paradigm

*Adolf Kloke-Lesch and Colin Gleichmann\**

When the leaders of the world's largest economies (G20) met in Washington in 2008, this initially sent out a financial policy signal: globalised interdependencies would not permit any 'go-it-alone' approaches by the G8 during the crisis. At the Pittsburgh meeting in 2009, the G20 asserted its position as 'the premier forum for our international economic cooperation' in place of the G8. This sea change also proved the traditional North-South paradigm outdated and may, sooner rather than later, turn out to be as significant as the collapse of the bipolar world order after the fall of the Berlin Wall.

### **Alliances and agendas**

In the G20, industrialised countries and emerging economies do not meet as blocs representing the North and South. In the search for solutions to global problems, interests and alliances cut across traditional groupings (see, for example, the debates about 'surplus countries' or Anglo-American vs. continental European regulatory concepts).

The emerging economies in the G20, too – which the China-based Boao Forum terms the Emerging Eleven (E11) – could scarcely be more disparate. Argentina, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey represent a broad spectrum of social models, regional interests and economic capacities. Their per capita incomes (GDP/PC) range from USD1,000 (India) and USD3,300 (China) up to USD19,000 (Korea, Saudi Arabia). Turkey, Mexico and Korea are also members of the OECD. Brazil, China, India and G8 member Russia meet as the BRIC countries. In regional organisations (NAFTA, APEC, OSCE), the old G8 and new G20 countries work together as equals. Major democracies India, Brazil and South Africa have formed a transcontinental forum (IBSA).

Precisely because of this representative diversity, the expectations of what the G20 can achieve go beyond crisis management and financial market reform. In principle, the emerging economies want to take on responsibility for other global tasks (climate, security) as well, but do not necessarily view the G20 as the appropriate framework for this. When it comes to economic development in the poorer countries, however, a different situation applies: this topic already featured on the G20 agenda during the crisis, and as a logical consequence, a G20 working group on development was established in Toronto in 2010.

This new development policy format challenges all the G20 members' previous roles, policy strategies and instruments. If this challenge is utilised as an opportunity, it could generate important impetus for a new understanding of development policy as global public policy,

---

\* The views expressed in this contribution do not necessarily reflect the views of GTZ but only those of the authors.

manifesting in a fresh approach to bilateral development cooperation within the G20, in the G20's position in poorer developing countries, and in the shaping and implementation of global agendas.

### **The industrialised countries: Rethinking development and cooperation**

With the embedding of the development agenda in the G20's core economic and finance policy mandate, the industrialised countries within the G20 will have to focus to a greater extent on the economic dimension of development once more. An MDG agenda that concentrates too narrowly on ODA financing of development outcomes in sectors such as education and health could be turned around. Attention would then increasingly shift towards development interests that go further than combating absolute poverty and addressing the needs of the poorest countries. To date, very few developing countries have been able to escape the 'middle income trap' by pursuing a knowledge-based development path. Besides ODA, other instruments such as trade, direct investment and technology transfer, as well as government bonds and the valorisation of national resources, should be applied in a more pro-active and coherent manner.

Aid effectiveness, which focuses on ODA and low-income countries (LICs), must be placed in a different context, with aid effectiveness being redefined as development effectiveness. DAC donors' efforts to standardise and rationalise their 'aid industry' are based on a North-South paradigm and found their most ambitious expression in the Paris (2005) and Accra (2008) agreements. However, the relevance and implementation of this agenda are being challenged more strongly than ever by the re-emergence of a political economy of aid, the growing importance of non-public sources, and the dramatic proliferation and fragmentation of the 'aid industry' – despite the DAC's exemplary transparency and openness.

### **The emerging economies: Entering the new world of global development**

For the emerging economies, G20 membership mainly challenges their previous understanding of their role as countries and representatives of the (poor) global South. Their economic and geopolitical interests which brought them into the G20 only converge with the interests of the LICs to a limited extent. To prevent an ever-widening gap between roles and realities, the emerging economies must face up to and attempt to shape this changed situation – not only in their roles as recipients and donors of official development cooperation. Their own future development pathway, too, is no less relevant to the safeguarding of global public goods, overcoming of poverty or the promotion of good governance in other developing regions than the pathway pursued by the 'old' G8 members.

South-South Cooperation (SSC) is often invoked as an old and a new paradigm. One aspect which is often overlooked in this context is that the BRIC countries' economic influence and technological lead over many LICs are now comparable with those of the established ODA donors. The SSC paradigms (Bandung, TCDC) are 50 years old and have never been

particularly effective. What's more, they date back to a time when per capita incomes in China and Africa, for example, were very similar. It was only with the massive expansion of FDI, long-term raw material supply agreements, credit facilities and ODA-type transfers by the BRIC countries to Africa in particular that the term 'SSC' has become associated with visible economic developments. However, the emerging economies apply highly disparate approaches when implementing their development assistance and foreign trade instruments. After decades of largely ideologically motivated policies, they have – since the end of the 1990s – begun to adopt a more strategic approach to external relations both regionally and globally and have improved the linkage between aid, trade and financing. Each of these countries has developed its own formats and forums which compete with each other and are largely inaccessible to third countries, making it hard to draw comparisons between them. A genuinely new joint development agenda based on equality is therefore very unlikely to emerge within the G20 without more transparency in relation to these realities and without the demystification of SSC.

### **Shaping development cooperation in emerging economies through shared global responsibility**

Many emerging economies are becoming increasingly selective and sophisticated when forging partnerships to support their internal development. The established donors are re-viewing their cooperation with the emerging economies at the same time. The majority of emerging economies in the G20 are still ODA recipients, however. Over the past decade, their share of total ODA has decreased from 10% to 5%, standing at USD5.6 billion net in 2008. Nonetheless, the G7's and Australia's active portfolio of cooperation (gross ODA) with the E11 in 2008 totalled USD10 billion – still a significant amount. A key factor determining whether and how future bilateral development cooperation arrangements will evolve within the G20 itself is likely to be the extent to which the two sides consider them relevant to the solution of common regional and global development issues or to the implementation of decisions adopted within the G20 framework. G8 countries are increasingly seeking to identify areas where the emerging economies could be expected to make greater contributions of their own. Within the G20, the old G8 and new G20 members could develop shared ideas of how they wish to shape this cooperation portfolio in the interests of sustainable global development that takes account of the finite nature of the planet's resources and the development interests of all the world's regions.

### **Better coordination of development cooperation in poorer countries**

In 2008, the old G8 and new G20 members together contributed around USD65.0 billion (net) in ODA to non-G20 countries, of which around USD10 billion came from the emerging economies. The contributions from China and Saudi Arabia – with these two countries each contributing USD3-5 billion – exceeded those from countries like Canada, Italy and



Australia, India, Brazil, Turkey and Korea are also systematically increasing their ODA (with each providing USD0.5 – USD1 billion in 2008). In addition, there are the far larger government loans and trade agreements concluded by emerging economies with developing countries. And yet there is still no coordination between DAC and non-DAC donors in the recipient countries or at international level. This situation casts doubt on the sustainability of many investment and ODA programmes. Already during the Heiligendamm process, the G8 and Brazil, China, India, Mexico and South Africa had agreed that the time is ripe to develop the synergies between their efforts. G20 could now press ahead with the framing of joint principles and development goals among the main donors and intensify practical cooperation in the recipient countries. It could also boost the coherence of development financing instruments deployed outside the ODA framework. The old G8 and the new G20 countries should overcome their compartmentalised and somewhat defensive approaches and move towards a form of cooperation that starts with mutual information and progresses, through coordination, towards practical joint initiatives and programmes. The central role of partner governments and the opportunities afforded by creative and transparent competition should be strengthened at the same time.

### **Developing new ways to implement global agendas**

Among the forums available for international development policy coordination, the international financial institutions (IFIs) (i.e. the IMF and the multilateral development banks – MDBs) are particularly attractive from the emerging economies' perspective because these institutions prioritise the G20's economic agenda. Within these forums, too, these countries are gaining greater influence through the reform of voting rights, and North-South and South-South cooperation are increasingly merging. At the same time, emerging economies are now expected to make more substantial financial contributions to concessionary funds. The OECD was an important partner for the G8 in implementing and monitoring summit decisions. A corresponding role for the OECD within the G20 framework is not yet in sight. However, the G20 could request the Fourth High Level Forum on Aid Effectiveness (HLF IV, Seoul 2011) to develop a joint Development Effectiveness Agenda which regulates markets and networks for cooperation more efficiently. Within the UN, the emerging economies are still trapped to a large extent in the North-South paradigm and the G77. The Development Cooperation Forum (DCF) has also been unable, so far, to evolve into an arena with changed roles. The debate about the development policy agenda post-2015 offers emerging economies the opportunity to contribute their own development experiences and changed roles into a new horizontal development paradigm for the UN, from which global development goals to 2030 could emerge.

However, the G20 will only transform the international development agenda if it starts with pragmatic, problem-oriented agendas and, during their implementation, identifies new approaches to partnership between old G8 and new G20 members. The outsourcing of implementation to the MDBs would appear to be a sensible approach, but does not adequately

valorise the experiences and potential capacities of the G20 countries themselves. A more attractive option would be hybrid bilateral and multilateral consortia and networks in which G20 members draw on and coordinate the comparative strengths of their bilateral programmes and institutions. This would give emerging economies in particular more scope and visibility.



## Towards a comprehensive and inclusive development agenda for G20: Lessons from the Heiligendamm-L'Aquila Process (HAP)

*Ernesto Soria Morales\**

### **Introduction**

Reaching broad consensus on crucial global issues, particularly on key development issues, depends largely on the ability of international dialogue mechanisms to build confidence, share views and create common understanding. Certainly these were three of the major achievements of the Heiligendamm-L'Aquila Process (HAP). Through this innovative informal mechanism of high-level political dialogue, the G8 and G5 (Brazil, China, India, Mexico and South Africa) succeeded in building common ground on key development issues in general (including both approaches and policies), and on international development cooperation in particular.

As the G20 has been evolving from being a world crisis mechanism to “the premier forum for international economic cooperation”, so its agenda has had to broaden to include development issues. In that respect, the HAP could provide valuable experience for others to draw on, both in terms of building common ground on development and using innovative working methods which help to shape a more inclusive agenda and partnership for global development. Against this background, we ask: Which elements and conditions were key to enabling the G8 and G5 to build a common understanding on key development issues, and can there be lessons for G20?

### **HAP common ground on development**

The HAP dialogue on development started with overall agreement by its members on which main topics should be part of the agenda. However, different approaches to development in general and development cooperation in particular meant there were also divergences. For some G8 members, the HAP should be there to disseminate best practices, standards and regulatory frameworks which, as major donors, they had formulated and promoted.

The Paris Declaration would therefore be crucial as a means of extending the effectiveness agenda to the G5, who were increasingly being seen as “emerging donors”. For the G5, on the other hand, any attempt to label them as “new donors” was strongly resisted. Throughout the entire process the G5 emphasised their role as developing countries, whose priorities were to create a policy space that would incorporate the interests of the developing world. They also aimed to convince fellow members of the validity of their own mechanisms which they had developed and which were worthy of recognition, such as South-South cooperation.

---

\* The opinions expressed in this article are those of the author and do not necessarily represent the view of the OECD and the HAP dialogue partners.

After two years of open exchanges among members, the HAP dialogue on development achieved three major results.

First, *it helped to build a common denominator for developing policies.*

Members found that they shared the same fundamental objectives of development as pre-conditions for poverty reduction: MDGs, sustainable economic growth, peace and security. They also recognized the need to mobilise all possible resources for development based on the Monterrey Consensus and the Doha Declaration on Financing for Development. In addition, through the exchange of experience and consultation with African institutions, members were able to identify a number of lessons learned which could facilitate effective cooperation with so-called fragile states. This consultative process that included the beneficiary partners' own visions, priority needs and interests was key to more fruitful discussions.

Second, the HAP enabled *consensus on the effectiveness agenda to be reached.*

While noting the diversity of their respective approaches, all members committed themselves to implementing the Accra Agenda for Action (AAA) which they recognized as the common basis for the future of development cooperation, including South-South cooperation. They also agreed it was imperative to move beyond aid effectiveness towards development effectiveness. This was an important achievement, given the divergence of positions on this topic between the G8 and the G5 earlier on in the process.

And third, with regards to development cooperation, the HAP *identified differences, similarities, convergences, and complementarities among diverse approaches.*

Members recognized the value and the differences of North-South and South-South cooperation, and concluded that both are mutually complementary.

The HAP developed a new perspective and dynamic of dialogue which succeeded in finding common ground between these two approaches, unlike other forums such as the DAC and the United Nations Development Cooperation Forum (UNDCF) whose attempts to promote similar dialogue between traditional and emerging donors were less productive. The HAP benefited from a more open, informal dialogue format, and from the small number of participants.

Likewise, the HAP recognized triangular cooperation as an important link with great potential for developing synergies between South-South and North-South cooperation. In fact, through exchange of experience and consultation with African partners, they agreed on a set of working principles for effective triangular cooperation.

The HAP's success in reaching common understanding on development has had positive repercussions that have contributed greatly to the adoption of a set of fundamental principles, aimed at effective and responsible policies for sustainable development. These were reflected in the first-ever G8+G5 Joint Declaration, "Promoting the Global Agenda", adopted at the G8 Summit of L'Aquila in 2009.

### **Particularities of the HAP**

Consensus building was made possible by the particularities of HAP whose structure, format and methodology were instrumental in establishing constructive dialogue.

The HAP's approach for structured dialogue had three components:

- 1) a steering committee composed of sherpas who provided political guidance;
- 2) working groups consisting of senior-level policy-makers;
- 3) an *ad hoc* support unit established under the auspices of the OECD which provided analytical and organisational support – an innovative element even for the G8.

This approach helped to avoid the HAP's incorporation into G8 structures and to ensure continuity, sustainability, regular consultation and the exchange of information. It also created informal networks of senior level officials from member countries, thus encouraging mutual understanding and confidence building.

The HAP dialogue process was based on three key conditions and principles:

- 1) equal footing of all members in the decision-making process, setting priorities for dialogue and in defining the work agenda. This was essential for members' greater participation and stronger sense of ownership;
- 2) being open to holding frank discussions that included controversial topics;
- 3) transparency in procedures and decision-making to improve dialogue.

Informality played a key role in ensuring honest and open exchanges without the kind of constraints found in more formal forums or negotiating processes.

Due to its flexible, evolving nature, the HAP grew more productive as members saw the value of other principles and adopted them as part of their approach. For example, they were flexible enough to change the agenda to include relevant issues that emerged; and to adapt structures and working methods in order to ensure members stay engaged and on an equal footing. A 2-year work agenda ensured continuity, independent of the rotating G8 presidency. Complementarity was also seen as essential to facilitating and adding value to their work in other bilateral, regional and multilateral forums, while avoiding duplication.

### **Considerations for the G20 from the HAP experience: Towards a comprehensive and inclusive G20 development agenda**

A number of elements and working methods have contributed to the HAP leading constructive dialogue on development. These could have great potential for G20 efforts to achieve political results. Among them are respect, mutual understanding and acknowledgement of different approaches to development; setting long-term goals, independent of the presidency; the conviction that this work adds value to discussions in other international forums, while avoiding duplication; a strategic focus to allow the incorporation of emerging issues;

flexibility to consider cross-cutting themes; establishment of an *ad hoc* mechanism to give support and continuity to the process.

Based on HAP principles, a G20 dialogue on development could lead to an integrated, strategic framework for global development, built on common ground with core development principles. There would be two major components.

The first is its strategic-conceptual nature: the aim would be to create an inclusive vision of development that takes into account a greater multiplicity of actors and sources. It offers more comprehensive approaches that take development effectiveness beyond aid, offers a diversity of instruments and ways of both perceiving and measuring development.

The second is its operational character: the aim would be to design joint strategies and actions, in two stages. The first, short term, to:

- 1) minimise the social impact of the multiple crises (financial, economic, food, energy) particularly among the world's poorest, and
- 2) to strengthen the global partnership for development with the aim of giving new impetus to the commitment to achieving the MDGs.

The second is longer term, to:

- 1) shape an articulated architecture of global governance for development based on inclusive development cooperation, and
- 2) shape a comprehensive effectiveness agenda that goes beyond the aid perspective.

For the G20 development agenda to be relevant it has to be not only strategic and action-oriented but also sustainable, both in the medium and long term. In the light of critical development challenges, the G20's role in global development should be to build common understanding, break the main international deadlocks and lay the foundation for a clearly-defined development landscape beyond 2015.

## Thoughts on an action plan for the Working Group on Development at the G20: Towards the Seoul Summit

*Máximo Romero\**

The next G20 summit will take place November 11–12, 2010 in Seoul, Korea. Apart from having become the premier forum for discussing international economic cooperation affairs, G20 summits have been successful in addressing serious economic challenges within a reasonable period of time. The financial crisis which started to manifest itself in 2008, put nations worldwide in great jeopardy and demonstrated the fragile nature of our economies. Never before has it been so necessary to bring members of those major economies to the same table, not only to restore the credibility of our financial systems, but also to launch an unprecedented alliance to coordinate fiscal and practical monetary reforms. This would restore stability and in so doing, strengthen our financial systems.

Seoul, Korea will be the fifth summit of the G20. In June 2010, the host was Canada, in Toronto. Apart from reforms in the financial sector, perhaps one of the major achievements to come out of the Toronto Summit was the formulation of an alternative agenda. This achievement should not to be underestimated. Rather, it should be seen as an important step in committing G20 members to taking action in such areas as development, the fight against corruption, environmental and climate policy, and renewable energy.

### **Onward to a G20 development agenda**

Mexico was one of the countries which supported the proposal for a development agenda, emphasizing the importance of supporting sustainable and equitable development paths and acting on behalf of disadvantaged groups.

Paragraph 47 of the G20 Toronto Summit Declaration states:

*Narrowing the development gap and reducing poverty are integral to our broader objective of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient global economy for all. In this regard, we agree to establish a **Working Group on Development** and mandate it to elaborate, consistent with the G-20's focus on measures to promote economic growth and resilience, **a development agenda and multi-year action plans to be adopted at the Seoul Summit.** [Emphasis added]*

Paragraph 19 of Annex III of the Toronto Declaration acknowledges the significant progress made in supporting the poorest countries during the crisis and reiterates the importance of ensuring continuing benefits from G20 efforts to restore global growth. In doing so, it recog-

---

\* The views expressed are the sole responsibility of the author.

nizes the importance of achieving the Millennium Development Goals by 2015 and the key role played by the European Union's Official Development Assistance (ODA).

As is well known, the G20 includes industrialized countries along with developing countries. The G20 has been called to replace the G8 as the main economic council of wealthy nations. Also, the G20 includes the G5 members which formed the so-called emerging powers group: Brazil, China, India, Mexico and South Africa.

In 2007, G8 and G5 members agreed to have a joint meeting in the context of the Heiligendamm Dialogue Process (HDP), which promoted high-level dialogue and the establishment of a common platform at the OECD. The HDP established four working groups, including one focusing on development and cooperation with Africa. HDP was a good platform to support the Third High Level Forum on Aid Effectiveness (HLF3), at Accra, Ghana, where the Accra Agenda for Action (AAA) was launched. At the same time, the HDP provided a good entry point for the newly-formed G20 Working Group on Development.

### **Linking Heiligendamm/L'Aquila with the G20**

Perhaps the main areas to be addressed by this new G20 working group should be those which were agreed upon at the end of the L'Aquila Process. These included

- the situation of fragile states;
- food security;
- policy coherence on cooperation;
- implementation of the AAA; and
- triangular cooperation.

Cooperation with fragile states is an important issue for many countries, especially in Africa. However, there are other countries, such as Mexico, which are familiar with this subject. Mexico played only a small part in promoting this type of cooperation, but when it launched its unprecedented aid effort in Haiti, in the wake of the January 2010 earthquake, Mexico gained not only valuable experience but also acceptance from Haitian stakeholders. Thus, given the significance of economic cooperation on all developing countries, it is crucial that dialogue not be restricted to Africa, but also include other regions likely to benefit. The inclusion of countries such as Haiti would certainly enrich discussions in this important policy area.

With respect to food security, globalization and the consequences of the economic crisis, the G20 should assume joint responsibility for building a more equitable global economy and commit to fairer global growth through the strengthening of the sectors of production and promoting sustainable human development. For this, precise goals must be defined with a clear set of indicators to monitor and evaluate agreements and commitments made, and to see to what extent objectives have been reached.



Based on the example of Mexico's current and past cooperation, which demonstrated the country's expertise, for example in agriculture and rural development, it is important that each G20 member country examine its own capacity before committing itself to engage in a broad agenda for development.

Regarding policy coherence and the implementation of the AAA, it is important to start the dialogue given the upcoming deadline of the Paris Declaration on Aid Effectiveness by 24 members of the Development Assistant Committee (DAC) in 2011. Mexico is an important player in South – South cooperation. Hence, the Seoul Summit would be a good opportunity to share views and gain understanding for the different G20 positions concerning the implementation of the Paris Declaration and the challenges of the AAA. This could result in a feasible and sustainable work plan.

At this moment, different regional and multinational institutions are working on an effective international development agenda: OECD WP-EFF (Working Party on Aid Effectiveness), IATI (International Aid Transparency Initiative), World Bank, UNDP, UN-ECOSOC, Regional Development Banks, etc. Therefore, it is extremely important to avoid duplication and to reach a common understanding of what the core elements are. It has been Mexico's position during the last years to consider the five principles of the Paris Declaration as guiding principles for developing countries to adapt to the conditions of each country.

### **Moving beyond Paris and Accra**

In addition, G20 members should take care not to limit the discussion on the international development cooperation agenda to the Paris Declaration or the AAA, but rather to extend this to other important agendas, such as the Doha Financing for Development Declaration and the observations and recommendations of the report on international cooperation for development (E/2008/69) of the United Nations. Donor countries should present annual reports on the Millennium Development Goal 8, in which they describe in general terms how their national policies are contributing towards coherent global development. The September 2010 meeting at the UN for MDG 8 could provide an important orientation for the G20 action plan.

### **Prospects for triangular cooperation**

A final remark regarding the Working Group on Development: triangular cooperation is an issue which the HDP has already discussed. G20 members can work together to formulate guidelines for effective triangular cooperation. If the Working Group could agree on common standards for triangulation, it would send out a strong signal to the international community.

To sum up, given the diversity of actors within the G20, it is advisable to refer to the European ODA, not only with regard to international development cooperation provided by tradi-

tional donors – most of whom are part of the DAC – but also with a view to including donors engaged in South-South cooperation. The G20 Toronto Declaration recognizes South-South cooperation as a way to accelerate both research and development. Cooperation for development would have a wider effect and impact on social development if we combined policies on trade, investments, climate change, food security, poverty eradication and others.

From a general viewpoint, it is necessary for the Working Group on Development to obtain clear instructions from the G20 sherpas with respect to expected outcomes and deliverables. A lack of direction would result in action plans falling short of countries' expectations.

Finally, it is important for member countries to appoint officers responsible for cooperation who will lead discussions at the Working Group on Development.



## A new Seoul Consensus on Development: The G20 needs to reconcile effective ODA with emerging country economic cooperation

*Uwe Wissenbach\**

The G20 focus on development provides a unique opportunity to build a new consensus on development which includes (more effective) ODA and the achievements of emerging economies as evidence of what has worked. It should re-design the global economy in an act of self-interest with the Millennium Declaration as a moral compass. The poor countries of today – particularly the huge and rich African continent – can be the emerging economies and markets of tomorrow. But let's not forget that 58% of the world's poor live in G20 member countries. G20 leaders need to go beyond debates about ODA and engage in setting an agenda for development effectiveness that builds pragmatically on the comparative advantages of its members, not an elusive normative consensus defined by the DAC. This implies that developed, emerging and developing countries take common but differentiated responsibilities for the global good 'sustainable development'. Yet development is not principally a global good, but remains essentially defined as something (wealth and power) a nation wants to achieve within its boundaries. The G20 needs to take stock of the experiences of traditional donors, emerging economies and the developing countries themselves – they all have success stories or failures to share.

Today's emerging economies have in the last few years profoundly changed the world's trade and growth patterns. They have also called into question – through deeds rather than words – the dominant Western approaches to development. These changes in the last decade call for a new approach that should move the sterile debates on 'good governance' and the 'right development policy' into a constructive mode. There is no ideologically bipolar world any more and no 'one-size-fits-all' approach would work. That's the challenge for the Seoul Consensus on Development.

Let's take China's Africa policy as an example to illustrate the point how important it will be for the G20 to forge a new consensus on development. The West's reaction to China's Africa policy has essentially shown that it does not recognise China as a responsible stakeholder while the African countries largely do. Like in many other policy areas the West's reflex is not to engage with China as it is, but to ask China to become as we would like it to be. This has paralysed Western China policy and created unnecessary polarisation.

In fact, the West should welcome China's engagement in Africa, and that of India, Brazil, Turkey, Korea and others even if they have motives beyond the 'global good'. Africa's development has been reduced to a humanitarian challenge by the G8 while China (and the other emerging economies) have quite naturally emerged there as economic players. By now, China contributes money, straightforward projects and real results (trade, GDP growth and infra-

---

\* The article reflects the author's personal views and not those of the European Union.

structure) to Africa's development. Increased Africa-China trade has not come at the expense of US or EU trade with Africa, but largely on top of it. Chinese packages (policy coherence!?) allow countries which are short of capital to finance large infrastructure investments quickly to kick-start the economy or to re-build countries emerging from conflict. Studies show that this approach worked well in Angola while it failed in Nigeria. Developing countries see China increasingly as a role model (but rarely as an attractive political system) and development partner, or – more soberly – as a business partner presenting healthy competition for traditional partners. This is despite occasionally huge differences in interests (for instance in climate change or trade).

Africans can now choose from different options for development cooperation beyond often intrusive and ineffective ODA and to combine them (for instance through trilateral cooperation). China's Africa policy is not a question of predator or saviour, market or mercantilism, democracy or authoritarianism which has unfortunately dominated the debate about China and Africa. It is about managing complexity, interdependence and development between a rock (national sovereignty) and a hard place (global challenges). Different approaches increase Africa's choices – there is no need for conformism of African partners with either Western or Chinese templates, but there is a need for dialogue and cooperation around these based on a collective African international strategy. For that Africa needs a stronger voice in the G20 through the African Union (AU) (Commission and rotating Presidency).

China has not been a threat, but a catalyst for a slowly emerging more comprehensive, more complex and ultimately more balanced global economy that is evolving largely peacefully from the post-War order and has so far contributed to an increase of prosperity in hitherto poor regions of the world, largely without losses elsewhere. Through the G20 China will have to more actively shoulder responsibilities regarding global challenges not because the West demands it, but because China (and developing countries) will recognise it as necessary. In the G20 China will be obliged to formulate more precisely what it is willing or not to contribute.

The G20 is therefore the appropriate forum to redefine common and differentiated responsibilities in a group of key players – the filibustering and obstruction in large forums (see UNFCCC) can be avoided in this more intimate format. To respond to complexity and interdependence we need pragmatic, functional cooperation and leadership not ideology to deal with development challenges. I therefore believe a shift is necessary to work with China (and other non-Western countries) on the basis of shared interests and accepting different approaches to problems as an advantage.

### **Functional multilateral solutions**

The outdated categories of the 20th century – great power rivalry, power transition, dependency theory, North-South divide – do not adequately capture the challenges of an interdependent era. Consequently, national poles of power can hardly be building blocks for global policies; we need multilateral, not multi-polar systems, but of course with efficient states to make them work. We need functional solutions, rather than principled answers, in a period of

transition where many global institutions no longer perform adequately. Until the world can agree on new global institutions to tackle the challenges of the 21st century comprehensively, functional multilateralism can provide effective solutions. Functional multilateral cooperation regimes can be created on the basis of shared and jointly defined interests and objectives to address particular international challenges. They don't require a normative consensus, but they do require that stakeholders respect each other as equals when addressing a particular task while leaving more fundamental differences to bilateral relationships. They are complementary to existing global and regional frameworks such as the UN, EU, AU or IMF. They only need a limited set of objectives and rules and 'membership' can be restricted to the most relevant parties. We need to build up that system step by step with functional multilateralism on top of and working with the existing global institutions. The G20 summit in Seoul is a good starting point.

The G20 is such a multilateral forum to address a set of functional issues – but it has to define a shared agenda of interests in development that add up to more than the sum of its parts and wisely allocate the tasks, not duplicate. We need a network structure where multilateral agencies and forums increase mutual accountability and efficiency: there is a need for both out-reach and in-reach. The G20 Presidency could report to the UN General Assembly at the start and the end of each Presidency to enhance legitimacy and accountability to the non-members, but effectiveness is key.

### **What could the Seoul Consensus deliver?**

First, a commitment to inclusive growth that includes fighting poverty with all means: ODA, sustainable investment, duty and quota-free market access for LDCs to all G20 countries, support to regional infrastructure development and market integration including the soft infrastructure (trade facilitation, regulation, management and maintenance, cheap communication), aid for trade, support to social security systems (also as automatic stabilisers), global and regional financial safety nets to free Forex reserves for productive investment. Second, all G20 economic cooperation with developing countries should include company and government commitments to foster the MDGs, corporate social responsibility and environmental objectives (UN Compact) and in resource investments developing countries need capacity building to negotiate fair deals that contribute to development. We also need a consensus against corruption. Third, the summit can come up with innovative sources of financing that combine the different means of G20 members with policies that facilitate global re-balancing through promoting developing countries' growth and creating productive and sustainable investment opportunities there. Fourth, it should deliver on the phasing out of an estimated 500bn USD fossil energy subsidies that should rather be spent to mitigate or adapt to climate change.

One summit will not create another miracle on the Han River, but it can provide a launch-pad for a new consensus on development based on a functional partnership that allows all G20 members their own policy space (national development), but sets targets and captures synergies to deliver global goods.

## G20: Sharpening the focus on global development

*Leena Srivastava*

According to the G20 Toronto Summit Declaration of June 2010, one of the G20's highest priorities is to lay the foundation for strong, sustainable and balanced growth. It also recognises "*the importance of achieving strong job growth and providing social protection to our citizens...*" It then goes on to recognise the importance of the Millennium Development Goals (MDGs) Summit in September 2010, identifying it as an opportunity to "*reaffirm the global development agenda and global partnership ... and ... our respective commitments to assist the poorest countries.*" And, as part of the forward agenda, the G20 agreed to "*establish a Working Group on Development and mandate it to elaborate ... a development agenda and multi-year action plans to be adopted at the Seoul Summit*" with the objective of "*narrowing the development gap and reducing poverty.*"

A coalition of developed and emerging market economies, the G20 is also home to a significantly large percentage of the population targeted by the MDGs and to the world's poor. But, in the run-up to the MDG Summit, a few things are clear: the report card on progress made towards achieving the MDGs is mixed, many of the improvements being attributable to the efforts of the emerging market economies themselves, with little help from the international community; reversing the deterioration in several of the world's poorest countries will require substantial international financial resources and efforts; achieving individual MDGs necessarily requires a holistic approach to all MDGs and would be impossible without agreement on some global goal of universal energy access, a goal that has been referred to as the "missing MDG" or the "underlying MDG."

### **So what can the G20 do to address these challenges to development?**

*Strategic investment, not aid:* One key strategic issue that the G20 needs to recognise is that the prospects for sustainable growth are closely intertwined with the unleashing of human and market potential in the poorest segments of society – not only in the countries within this grouping but outside as well. As such, any financial outlays on the MDGs, or any global goal of energy access that may be set, should be looked upon more as an investment in a global public good in the short term for longer-term sustainable growth.

*Technology-based partnerships, not transfers:* A second strategic approach would be to emphasise not only South-South but also South-North-South cooperation. An excellent case in point is the *Lighting a Billion Lives* (LaBL) campaign spearheaded by TERI (The Energy and Resources Institute) to bring light to the majority of the 1.4 billion in the world today who do not have access to electricity in their homes. Based on solar lanterns, and using a fee-for-service business model, the LaBL campaign recognised early during its implementation the importance of value added services (flexible operations, mobile charging etc), albeit at significantly lower costs and higher effectiveness than the existing options.

Bringing together domestic solar lantern producers with the world's best electronics and battery manufacturers, largely from the developed world, and harnessing the potential of students at the world's best universities, the LaBL programme is creating a platform of social entrepreneurs who can be, and are being, used to engage in other developmental programmes as well. In two years, the programme has reduced the cost of solar lanterns by nearly 66 per cent and facilitated access to lighting by designing appropriate financial, market and human-capacity mechanisms.

The techno-economic-institutional experiments carried out in under-privileged communities in the developing world would find more ready application in other developing-country contexts. The challenge to research and manufacturing facilities in the developed world is to create solutions and products that can be adapted to a range of applications that will allow them to tap more fully the market potential of those at the bottom of the pyramid! The G20 needs to give due recognition to the role of technology adaptation and customisation, as against technology transfer, and to set up mechanisms that will exploit the power of partnerships to meet the specific needs outlined in the MDGs.

*Embrace the goal of universal energy access:* The G20 summit in Seoul must also support the report submitted by the Advisory Group on Energy and Climate Change to the Secretary-General of the United Nations, which calls for universal access to modern forms of energy by 2030. The grants and loan capital requirements for achieving this goal have been estimated to be a small fraction of global energy investments in the same period. The multiplier effect of an energy goal on other MDGs would obviously be substantial. To achieve this goal most effectively and expeditiously, the G20 should pool financial, technical and knowledge resources in a global and inclusive governance mechanism.

*Strengthen human and institutional capacities for rapid scaling-up:* A high-level commitment from the G20 heads of government is required to empower relevant institutions in their countries to experiment with, evaluate and scale up technological and market innovations and to invest in creating the requisite skill sets in support of such scaling up. A conceptual move from the large-scale centralised delivery of services to a modular, decentralised and yet more reliable provision of services harnessing locally available resources would require re-learning on the part of most policy/regulatory/financial institutions and an engagement with grass-roots institutions on an unprecedented scale.

Countries should individually and collectively explore the national mechanisms that would need to be put in place to ensure a coordinated and exponential approach to the MDGs – in much the same way as ministries or empowered committees on climate change have been established with special envoys in place in several countries.

**Summary**

The Working Group on Development must at least incorporate the goal of achieving the MDGs (and an energy access goal) in its work plans and demonstrate a level of ambition to narrow the development gap that is in tune with the urgency of building the capacity of the poorest developing countries to adapt to the threat of climate change. Each country must commit itself to, and be accountable for, the financial and technical support needed if the development targets are to be achieved, with major emphasis on cross-learnings. The multi-year action plans for development must elaborate on both the mechanisms and the resources needed to achieve desired outcomes – which would necessarily call for the development of careful monitoring and evaluation mechanisms that are facilitative in nature.



## Future directions for the G20: Towards legitimacy and universality

*Sir Richard Jolly*

The G20 is an important advance on the G7 and the G8. It has brought in China, India, Brazil and Indonesia as full members, along with six other third world countries. The G20 group now covers two-thirds of the world's population and some four-fifths of the world's trade and gross national product (GNP). In its meeting of April, 2009, it encouraged a massive stimulus to the global economy within a Keynesian framework, a bold departure from previous international actions. It has led the way with some reforms of the international system, albeit modest ones. All these moves are to be greatly welcomed

Yet the group has serious inadequacies. It is essentially self-appointed, created by the major developed country powers. It lacks legitimacy and universality: some 172 countries are not represented. It has few links with the UN, in contrast to its very strong international institutional links with the International Financial Institutions (IFIs). Not only are the Managing Director of the IMF and the President of the World Bank in attendance when it meets but so also executive officers representing the Chairman of the International Monetary Fund, the International and Financial Committee and the World Bank/IMF Development Committee.

These representational weaknesses show in the unevenness of its conclusions – bias is a more accurate term. In its meetings in London, Philadelphia and Toronto, the communiqués overwhelmingly focused on the problems and needs of the G20 countries themselves. The total support agreed was USD1.1 trillion through the International Monetary Fund (IMF) and bilaterally – but to the 49 poorest and least developed countries the commitments were for only a tiny fraction of this. For instance, although a doubling of the capitalization of the African Development Bank was agreed, this represented new annual lending of USD6 billion, under 10% of the total of USD71 billion agreed for all Development Banks (G20 2010, Annex III para 5).

One can contrast the G20 conclusions with those of the UN, when its General Assembly (GA) met in June and September 2009. These UN meetings also supported the need for strong, coordinated and effective actions to stimulate the world's economies. But in addition, the UN meetings emphasised the needs of developing countries for additional funding, for a new credit facility under the World Bank, for opening advanced country markets to least developed country exports, and for stronger regulatory reforms.

Even more significant, the GA also considered a number of more fundamental reforms for the longer term, drawing on the Stiglitz International Commission proposals (UN 2009). These went far beyond the decision of the G20 to start negotiations on extra representation for Africa on the IMF Board, important though this is. The Stiglitz Commission explored what it described as essential measures for the longer term:

- a new global reserve system;
- reforms of governance of the International Financial Institutions;
- reforming central bank policies to promote development;
- reformed financial market policies and in addition a Global Financial Regulatory Authority and a Global Competition Authority;
- mechanisms for handling sovereign debt restructuring and cross border investment disputes;
- completion of a truly development trade round;
- more stable and sustainable development finance.

### **A Global Economic Coordination Council**

The Stiglitz Commission also proposed a democratic alternative to the G20, a Global Economic Coordination Council. This would be a forum to address areas of concern in the functioning of the global economic system. It would be at a level equivalent to the General Assembly and the Security Council, meet annually at head of state and government level to assess developments and provide leadership on economic, social and ecological issues. Its on-going agenda would be to ensure consistency and coherence in the policy goals of the major international organizations and support consensus building governments on efficient and effective solutions for issues of global economic governance. It could promote accountability among all international organizations, identify gaps that needed to be filled and help set the agenda for global economic and financial reforms.

The Global Economic Coordination Council would be supported intellectually by a high level international panel and by on-going analytical work of all important international institutions such as the World Bank, the IMF, the World Trade Organization, the International Labour Organization and the UN Secretariat. Membership of the panel would be on a constituency basis to ensure that all continents and major economies were represented.

Such recommendations are not new. In 1994, the North-South Roundtable of the Society for International Development held a conference in Bretton Woods on priorities for international reform of the UN and Bretton Woods Institutions. This identified the need for a Development Security Council set up within the UN and focused on issues of economic and human development. It proposed that its “[m]embership should be small, for example, comprising 11 permanent members from the main developed and larger developing countries and rotating membership of, say, 12 countries drawn from regional smaller countries in regional groupings” (Haq ul et al. 1995, 11). It suggested certain protections in voting, such as that all decisions be ratified by a majority of both developed and developing countries. It also proposed occasional high level sessions at the ministerial level and annual sessions at the heads of state and government level.



Since the time of these reports, the need for more effective global consultation on economic matters has grown – and so has the response, though in very small steps. In 1975, the G6 first met, in a meeting called by France. A year later, Canada was invited and it became the G7. With the end of the cold war, the group invited Russia and it became the G8, though Russia was not formally a member until 1997. In recent years, the UK and France expressed their desire to invite five leading developing countries, so China, India, Brazil, Mexico and South Africa were invited, initially as guests. Although the G20 was first convened in 1999, in relation to the Asian financial crisis, it was the context of global economic crisis and the London Summit in April 2009 that gave it high visibility and more clout.

In September 2009 in Pittsburgh, it was announced that in future the G20 will replace the G8, *“as the premier forum for our international economic cooperation”*, agreeing on shared policy objectives, medium term policy frameworks, and depending on mutual assessments, specific actions to meet common objectives.

What chance is there that further advances will be possible? What would it take for the G20 to metamorphose into a true Global Economic Coordination Council, on the lines proposed in the Stiglitz Commission, with some base of universality and international legitimacy?

There are some positive signs. The Pittsburgh and Toronto Declarations, though mostly focused on the IMF and the World Bank as international organizations, included several references to institutions of the UN – the ILO, FAO, UNCTAD, the UNFCCC and the Millennium Development Goals. The need for expanding representation of poorer countries in the IMF and the Bank has been recognized and, at least informally, in the G20. Some 12 additional countries were invited to Toronto as well as the IMF, the World Bank, the UN and seven other international groups. But the role of such additional countries was not clear, nor is simply adding numbers a good solution. Some form of representation of smaller countries is needed, in order to keep the total numbers manageable.

Although the Toronto meeting and declaration sent out cautious signals on coordinated actions, seen by some as a step backwards from London and Pittsburgh, it included some startling calculations from the IMF and the World Bank about the gains which could be made if the G20 were to *“choose a more ambitious path of reforms over the medium term:*

- *global output would be higher by almost USD4 trillion;*
- *tens of millions more jobs would be created;*
- *even more people would be lifted out of poverty;*
- *global imbalances would be significantly reduced.”*

(G20 2010, para 9)

One need not accept all the underlying assumptions of such a calculation in order to agree that it represented a bold statement of possibilities and the economic benefits which might follow from closer international coordination. At least for the World Bank and the IMF, business as usual did not seem to be the only option ahead.

The economic and political balance of the world has shifted – and is shifting further every year. The possibility of major changes in global economic governance is no longer for the US and the Western powers alone to decide. Which of the options presented above is feasible, if any, will increasingly depend not only on the West but on the reactions of China, India and some of the other major emerging powers. Although these countries are now part of the G20, it is not clear to what extent the G20 as presently constituted commands their confidence and, in their view, adequately represents their interests. Nor is it clear how much these countries feel that the lack of legitimacy and universality in the G20 is a serious problem which needs to be fixed. One can only hope that discussions on this question, formal or informal, in the G20, in the UN or outside, will be pursued in Seoul and over the months ahead. A more satisfactory and representative system of global governance is urgently needed and there are many ideas to build on.

### **Bibliography**

*G20 (Group of Twenty)* (2010): G20 Toronto Summit Declaration, June 2010

*Haq, M. ul et al.* (1995): *The UN and the Bretton Woods Institutions: new challenges for the twenty-first century*, Basingstoke: Macmillan

*UN (United Nations)* (2009): *Report of the Commission of Experts of the President of the General Assembly on Reforms of the International Monetary and Financial System (United Nations)*, New York, 21 Sept. 2009

## G20 and global governance: A new “new deal” for the global poor!

*Ashwani Kumar*

### **What role should the G20 take on?**

The most urgent task facing the upcoming summit meeting of the Group of 20 in Seoul (South Korea) is to reflect on the most fundamental issue concerning its existential status and ideological legitimacy as the so-called “biggest single innovation” in the emerging architecture of global governance since the end of the cold war (Cutter / Spero / Tyson 2000). No doubt, it has increasingly offered the promise to become what President Barack Obama euphemistically and optimistically calls the “premier forum for international economic cooperation” in which major industrial nations and “emerging powers” meet to discuss issues of “institutionalized cooperation and generalized reciprocity” at the global level.

The G20 was originally intended as a “deliberative body” rather than a decisional one for managing global governance, especially the spread, extent and reach of economic globalization. As regards economic power and population, the G20 represents 85 percent of global GDP, 80 percent of international trade, and two-thirds of the world’s population.

### **What role does the G20 take on?**

Though sceptics view G20 as just another of the proliferating celebrity global talk shows in the post-crisis world, and an organization which continues to remain wedded unapologetically to the ideology of free market, G20 evangelicals celebrate the fact that it has also become “*an extraordinary phenomenon*” and a “*focus for the energetic activism of a huge array of campaigning coalitions, civil-society and pressure groups, and political organizations*” to halt the march of predatory economic globalization (Hayes 2009).

The G20 has turned out to be a prime-time “minilateral forum” with a distinct bias for promoting and protecting the globalization of capital – much to the chagrin of the global poor. More significantly, the G20 has helped encourage the “formation of consensus on international issues”, especially the issue of finance and banking capital (Woods 2010). It is thus no surprise that the fate of the G20 is intimately linked to the future of international financial stability at the cost of deepening human crises in various parts of the world.

In contrast to the iniquitous two-tiered UN Security Council and the mildewed, time-warped Bretton Woods institutions, G20 indeed offers a more transparent, inclusive and promising forum for shaping the destiny of sustainable development. The inclusion of countries such as Saudi Arabia, China, Brazil, Turkey and Indonesia reflects a growing recognition of not only “power shifts” in the global order but also an appreciation of different interests, values, and visions of a post-globalization world order.

However, the evolution of the G20 is mired in a bizarre paradox, as global democracy theorist Daniel Archibugi (2009) rightly suggests: “*It has no employees, no headquarters and*

*not even a statute. Indeed the international relations handbooks cannot tell us how to handle it, as it is situated half way between an international organization and the more formalized practices of traditional diplomatic channels.”*

Though leaders and policy makers from the G20 have frequently evoked the rhetoric of a “new Bretton Woods” and have indulged in the glib talk of “regulated capitalism”, the evolving architecture of the G20 can neither be traced to an institutional memory of global democracy nor be found rooted in the voices of global justice. Worse, the G20 may not now accurately reflect a “veiled unilateralism” of the USA. Rather, it continues to remain haunted by the “trilemma” of representativeness, equity and responsive leadership for shaping the future of sustainable development (Kirton 2001). In reality, it continues to operate more like an inter-governmental “informal, consultative workshop” for condoning the sins of predatory financial capital and erasing the struggles of the global poor for survival and dignity in the post-crisis world.

### **The effects of the global financial crisis on the poor**

The impact of the recent economic downturn has adversely affected the poor by increasing unemployment, worsening nutrition, reducing the quality and supply of education and health services, and ultimately wiping out the meagre savings and wages of poor people. In a major analysis of the impact of the financial crisis on the lives of the poor, the World Bank has estimated that the “triple F” crisis (i.e. financial collapse combined with food and fuel price crises) led to an increase of 53 to 64 million people in the number of poor in 2009, based on estimates of those living on less than USD2 a day and USD1.25 respectively (Chen / Ravallion 2009). The World Bank has also suggested in an analysis that 40% of the world’s 107 developing countries were “highly exposed” to the global crisis. And it called on the rich countries to establish a “Vulnerability Fund” in which each developed country would devote 0.75 of its bail-out package to help the poor in developing countries (Lustig / Walton 2009).

The UK Department for International Development has corroborated the assessment of the World Bank by estimating that an additional 90 million people would be living on less than USD1.25 a day by the end of 2010. Most analyses of the impact of economic downturn suggest that the Millennium Development Goals have suffered most, as the economic downturn has resulted in reversing many of the gains made in reducing poverty in developing countries. The International Labour Organization (ILO) has also reported that the economic downturn resulted in the return of the poor to low-paid agricultural jobs as jobs in the formal and informal sectors suffered contraction. Not only this, women’s health suffered and child mortality also increased due to the combined effects of chronic poverty, loss of employment and lack of proper nutrition. Therefore, the financial crisis of the twenty-first century has indeed turned out to be a catastrophic human crisis for millions of global poor, a rare case of “violence of silence” on the poor!

### Responses of the G20 to the global financial crisis

Though the world has now slowly been recovering from the worst economic and financial crisis since the great depression in the 1930s, there is a strange silence, that is, a deeply disturbing form of inaction regarding the primacy cause and human consequences of global meltdown. Though the G20 has shown some degree of disillusionment with the seductive charm of the holy trinity of liberalization-privatization-deregulation and has paid homage to John Maynard Keynes in what British economic historian Robert Skidelsky has affectionately called “the return of the Master”, it has in reality condoned “criminal capital” by focusing exclusively on regulating hedge funds, controlling derivative trading, and organizing a global “college of regulators” for rogue investment bankers and other bankers. Leaders of the G20 have been busy in their summit meetings on bank rescues and stimulus packages.

This focus on the effects of “casino capitalism” has resulted in blindness to the effects of predatory globalization on the livelihood of the global poor. Cautioning the G20 leaders, Mary Kaldor (2008) writes in a provocative analysis that “*the financial crisis is not just a result of mis-aligned incentives and bad regulation*” but about “*deeper structural crisis in the real economy*”.

To be fair to the G20, its London Communiqué in 2009 recognized that “the current crisis has a disproportionate impact on the vulnerable in the poorest” and announced a “collective responsibility” to mitigate the social impact of the crisis; however, the leaders of the G20 and the masters of global finance capitalism, acting either in concert or individually, have condoned the “criminal capital” of investment bankers, either exculpating them or exempting rogue capitalists from their criminal liability at the cost of public money. In most communiqués of the G20 and summit meetings, the global poor are either simply absent or have been erased through a flawed reasoning of “methodological nationalism” in which the poor are seen as a homogeneous mass of nationally defined, passive populations or “beneficiaries” that can be easily dispensed with in order to facilitate the unhindered progress of globalization in a misplaced teleological search for “physico-theological proof” of the continuing relevance of global capitalism.

In other words, the G20 has itself become the victim of a fast-growing global schizophrenia about debilitating “transaction costs” in the global financial and banking systems that are structurally biased against poor. For instance, at the Toronto Meeting of the G20 “growth-friendly fiscal consolidation” was more than an endorsement of neoliberal orthodoxy regarding the magical power of markets, especially banking and finance, to alter the fortunes of people. This gladdened the hearts of crooked and immoral investment bankers on Wall Street, who not only duped the unsuspecting investors but also robbed the poor of the basic amenities needed for survival.

In the name of saving the world from further economic depression, the advanced economies, according to one estimate of the IMF, ended up spending approximately 55 percent of their respective GDPs on capital injections, liability guarantees, and outright purchases of bad assets from the major banks (Blyth / Shenai 2010).

In an intensely globalised world with mostly liberalized capitalist economies which extend across borders, the “equalisation of intervulnerability” among nations, groups and individuals has not guided the process of rectifying a global order in which poor and vulnerable groups have borne the brunt of the flattening of the globe and waves of so-called prosperity at home and abroad. The fact that the global crisis has hamstrung the strategies of both the urban and rural poor for escaping from poverty and has posed almost insurmountable risks to governments and their welfare projects for food security, human health and natural resource management, has escaped the attention of the G20.

### **What should the G20 do to help the poor?**

Attempting to influence the prevailing tone of economic pessimism and the “enormous anomaly of unemployment” over the period from 1919-32, in his provocatively titled “Essays of Persuasion”, John Maynard Keynes (1932) wrote presciently and almost prophetically that “the day is not far off when the economic problem will take the back seat where it belongs, and that the arena of the heart and head will be occupied, or re-occupied, by our *real problems*”. Though we should not allow the culprits behind the financial crisis to enjoy the perks of “financial stimulus”, the G20 leaders must not only attempt to institutionalize a “historic bloc” for global action in which the actors of global civil society are heard but also make at least a small beginning by establishing a “Global Vulnerability Fund” that focuses on those “real problems” that affect the lives of the global poor and limit the potential of humane and environmentally sustainable development for all!

### **Bibliography**

- Archibugi, D.* (2009): The G20 ought to be increased to 6 billion, in: *Open Democracy*, 31 March 2009
- Blyth, M. / N. K. Shenai* (2010): The G-20's dead ideas: why fiscal retrenchment is the wrong response to the crisis, in: *Foreign Affairs*, Snapshot, 9 July 2010
- Chen, S. / M. Ravallion* (2009): The developing world is poorer than we thought, but no less successful in the fight against poverty, Washington, DC: World Bank (World Bank Policy Research Working Paper 4703)
- Cutter, W. B. / J. Spero / L. D. Tyson* (2000): New world, new deal: a democratic approach to globalization, in: *Foreign Affairs* 79 (2), 81–98
- Hayes, D.* (2009): The G20 and the post-crisis world, in: *Open Democracy*, 2 April 2009
- Kaldor, M.* (2008): Crisis as prelude to a golden age, in: *Open Democracy*, 31 Oct. 2008
- Keynes, J. M.* (1932): *Essays in persuasion*, New York: Harcourt, Brace & Company
- Kirton, J.* (2001): Guiding global economic governance: the G20, the G7, and the International Monetary Fund at century's dawn, in: J. Kirton / G. M. von Furstenberg (eds.), *New directions in global economic governance: managing globalisation in the twenty-first century*, Aldershot: Ashgate, 143–172
- Lustig, N. / M. Walton* (2009): *Crises and the poor: a template for action*, Washington, DC: World Bank; online: <http://siteresources.worldbank.org/INTPOVERTY/Resources/WDR/malaysia/lustigwalton.pdf>
- Woods, N.* (2010): Global governance after the financial crisis: a new multilateralism or the last gasp of the great powers?, in: *Global Policy* 1 (1), 51–63



## Formalizing the G20 regional outreach contact groups and civil G20

*Yulius P Hermawan*

Since its first summit in Washington in November 2008, G20 member states have undertaken serious endeavours to prove the G20's effectiveness in dealing with the financial crisis and promoting strong, sustainable and balanced economic growth. Having a small number of members gives the forum much more flexibility to achieve its self-proclaimed global mandate. The member states' commitments to introducing coordinated policies at the national level have brought positive results in recovering their economic growth, both in member states and non-member states. The World Bank has recently noted that the world economy has shown positive growth since the final quarter of 2009. The Bank has also projected that growth will continue steadily within the forthcoming years.

Yet critiques remain: the G20 has only very limited legitimacy to claim and carry out its global mandate. It is thus now the time to consider seriously how to bring non-members on board through more formal mechanisms.

Consultation with non-members is a central issue in the G20's institutionalization. G20 chairs have apparently played leading roles in outreach to non-G20 states, particularly since the G20 summit was held in London in 2009. Gordon Brown, the then British premier, for instance, held a so-called *pre-G20 London Summit Africa outreach consultative meeting* with African leaders prior to the London Summit in 2009. Canadian leaders held an outreach meeting with ASEAN leaders in Hanoi, Vietnam prior to the Toronto Summit in 2010. The Korean government has also been active in undertaking several meetings with non-members in New York as well as in Seoul prior to the upcoming G20 summit. In New York, the new G20 host met with governmental leaders from UN member states, while in Seoul the government is preparing to host a meeting with leaders from civil society organizations (CSOs) in a forum which is called Civil G20.

The G20 has also invited some non-member states to participate as observers at its summits. The UN Secretary General, the ASEAN chair and Spain have been regular 'guests' at G20 summits, particularly since the London Summit in 2009. The G20 has recently arrived at a consensus to invite five 'permanent observers' including Spain, one selected African country, an African Union representative, an ASEAN representative and one selected country in the G20 host's region.

Besides inviting non-members to observe G20 summits, a few non-member states have also actively been involved in G20 working group meetings. For instance, the Netherlands as well as African Union leaders took an active role in the Working Group 4 meeting in Jakarta in March 2009, along with several multilateral development banks (MDBs), such as the Asian Development Bank (ADB), African Development Bank (AFDB) and the International Bank for Reconstruction and Development (IBRD). The working group set up a draft text for an MDB reform mechanism and a related plan of action. The objectives include the enhance-



ment of the MDBs' roles in providing standby-loans for the emerging markets, particularly during a financial crisis.

And yet, the participation of G20 non-members either in G20 summits or working group meetings is still informal. The G20 has yet to establish a formal mechanism of outreach to non-members, including non-member states, civil society organizations and other intergovernmental organizations. The mechanisms in place so far have very much depended on the G20 summit hosts' initiative to organize consultative meetings prior to the summits. Questions are raised as to whether the G20 will continue to recognize non-members' interests as well as in regard to the durability of the mechanism. Thus, the existing informal mechanisms may not help the G20 to respond adequately to the vocal critiques that have raised concerns over issues of legitimacy and effectiveness.

It is clearly now imperative that the institutionalization and further substantiation of the outreach meetings be implemented. How should the G20 establish more formal mechanisms for consultative meetings where non-members can express their views and thus contribute to the G20 process?

A first step to formalizing the mechanism is of course that the G20 leaders should deliberate and arrive at a consensus on formal outreach mechanisms, the substantive issues as well as criteria for the selection of non-G20 members which can be invited into the G20 process.

### **There is thus a need to identify various feasible formal mechanisms**

The first possible mechanism is intended to formalize a *regional and interregional approach* through the establishment of regional contact groups. The G20 should strive for a consensus on its formal contacts with the existing prominent regional and interregional organizations. The G20 chair can take this initiative in order to facilitate the formation of a regional contact group, but it is also highly desirable that each member-state be given a formal mandate to play a formal role in undertaking consultations with their regional organisation through the contact group.

The formation of the ASEAN-Indonesia-G20 contact group can be one model of how the G20 can initiate the formalization of the regional outreach mechanism. Through the contact group, Indonesia can regularly hold consultations with the ASEAN chair and General Secretary in coordinating Indonesian and ASEAN positions in the G20 process. This contact group can organize a regional meeting of finance ministers prior to the G20 finance ministers' meeting and G20 summit. The ASEAN finance ministers' meeting can arrive at a consensus on strategic issues being deliberated within the G20. Indonesia is then responsible for ensuring that G20 commitments are not contradictory to the ASEAN members' interests.

South Africa and the African Union are encouraged to form a similar G20 contact group by which regular consultations between South Africa and African Union members can be held in a formal way. It has been acknowledged that African nations are still underrepresented in G20. The recent consensus on the participation of an African Union representative and one

selected African country as permanent observers at the G20 summit will encourage African countries to emphasize the importance of African Union-South Africa-G20 contact group. This group can identify the interests of African countries, particularly in support of their efforts to promote economic development and articulate the interests to the G20 through their African Union representatives.

Brazil, Argentina and the G20 chair can also initiate the formation of a regional contact group with Mercosur (Mercado Común del Sur). The G20's recent consensus, which does not include Mercosur as a permanent observer at the G20 summits, provides a strong reason to endorse the formation of the Mercosur-G20 contact group. The contact group in South America will embrace Mercosur's permanent members and associated members and may further include countries that are not members of Mercosur.

The second feasible approach is the formalized consultation with global organizations such as United Nations. The G20 chair should play a formal role in this mechanism. It can be facilitated through the formal participation of the UN Secretary General at G20 summits or a special meeting of UN member-states with the G20 chair to address particular issues. Yet the presence of UN Secretary General should not be merely ceremonial or symbolic, but rather must be substantiated by focusing on relevant global issues that would be addressed at the summit. The UN representatives should have more scope to express their views on the issue being deliberated by G20 members; and their views should be considered as key points of reference in arriving at G20 commitments.

Best practices in inviting non-G20 members to participate in the G20's working group should also be formalized by the G20. The Working Group chair in consultation with G20 chair can select non-members which would like to participate at working group meetings. To make it substantive and effective, the selection of participants from non-G20 members should be based on the invited countries' competence to contribute to the working group and on the relevance of the agenda to the invited countries. The countries that would be most affected by decisions made by the working groups should be invited to participate actively in the respective working groups.

Following the formation of a Working Group on Development at the Toronto Summit, it is now very important for G20 to welcome the civil society organizations, which have been seriously concerned with the development agenda in the G20 process. The Korean initiative to facilitate discussions with CSOs through a so-called Civil G20, a special outreach meeting between the Korean government and CSOs prior to the Seoul Summit should be considered as one significant step to formalizing the participation of CSOs. The Civil G20 can be seen as an important G20 partner to assist it in accomplishing its global mission.

The French and Mexican governments which will host the next G20 summits in 2011 and 2012 respectively should continue the Korean initiative of welcoming the Civil G20. The formalization of dialogue between the intergovernmental forum and CSO leaders will provide opportunities for CSOs to provide substantive contributions to the G20.

To make the consultative outreach meeting effective, the G20 summits can design a general

framework for the consultation; the G20 summit hosts and sherpas should then further discuss the details. Following the commitment to upgrade the relevance of development issues, non-members can now express their views on possible approaches to tackle serious developmental problems in many developing countries. The already set-up Working Group on Development can play an important role in collecting various perspectives of key issues to be addressed at the upcoming Seoul Summit. Similarly, the recently set-up Working Group on Anti-Corruption should as far as possible welcome non-G20 members to discuss strategic approaches and an action plan to combat corruption.

Besides having more legitimacy and effectiveness, the institutionalized and substantiated outreach mechanism will effectively strengthen the role of the G20 as a new approach to global governance which can deliver benefit for all nations.

## Identifying the G20's strengths in dealing with global development

*Aldo Caliari*

Despite its rather short existence as a summit-level gathering, the G20 has already generated quite a lot of controversy as to its position in global governance. Is this the expression of a form of global governance? Can a limited-membership grouping erect itself into a global governance body that decides on “global” issues? How much legitimacy does such a group have? Is this a step forward or backwards in the quest for “global democracy”?

The G20 was constituted at the summit level in the heat of responding to an emergency, the global financial crisis of 2008-09. It is no surprise and therefore inevitable that the G20's tendency to expand its agenda into other areas not necessarily linked to global financial and economic coordination, make such controversies deeper.

Whatever position one takes on these debates, it is probably, in its attempt to tackle issues of “global development” that the G20 becomes most vulnerable in the face of criticism that has developed targeting its limited membership.

These critiques generally say that the limited number of members of the G20 is a constraint, and that the group should be enlarged to have broader representation. Therefore, calls have been made to bring more African participation, while others have mentioned the need to increase participation of low income or Least Developed countries. No matter what specific form this criticism takes, the ambition to address problems that mostly concern underdeveloped countries in a forum where such countries are not present, is bound to raise objections.

To be fair, the G20 has also faced, and resisted, calls to reduce its number of members. On the basis that 20 countries is already a number large enough to jeopardise the efficient functioning of the group, these voices argue for the formation of a G13 or G14.

It does not seem though, that the G20's major constraining factor is the number of members, and a debate that focuses narrowly on whether to bring members in or out surely misses the point. To give an example, those familiar with UN conferences would know that there are hardly ever, on a single occasion, 192 member country representatives in a room negotiating such documents. In fact, the negotiators that gather together, especially at the most critical moments, tend not to exceed a dozen – representatives of major blocks plus a few countries not affiliated to any block. Nonetheless, one does not get to hear that UN conference outcomes should be deemed illegitimate or that they do not bear full representation. Quite to the contrary, the outcomes are ultimately attributable to the whole membership.

Thus, the number of countries as such can be considered perhaps an important, but still a secondary aspect in the G20's vulnerability to criticism. The main criticism is its lack of accountable mechanisms for representation of a broader membership. In the UN, the countries finally negotiating, however limited their number may be, have a mandate from, and are accountable to, broader groups or blocks – unless they are clearly dealing with issues for themselves. Conversely, members of the G20 have no mandate to represent the views of any country other than themselves.

The lack of accountability to a broader membership is compounded by a lack of institutionality; meaning that a set of predictable rules and practices any member can invoke and avail itself of regarding agenda-setting, consensus-building, voting, and transparency, etc. In the case of the G20, the current host has almost unlimited discretion in ruling on these points. Indeed, recent experience demonstrated that not even what appeared as a condition of identity of the group, the number of participants, seems to be off limits to the discretion of the chair.

One could argue then, that these features, accountability of the members and institutionalism, should be reformed. But these features of the G20 are unlikely to go away soon. It is precisely what makes the G20 unsuitable as a body to make global decisions, that its members most cherish. The informality, or, as a "sherpa" described it off the record, the ability to "pick up the phone and make things happen," constitute the greatest allure of the group to its members.

Therefore should one conclude from all this that the G20 has no role to play on global development? Hardly.

It is the view of this author that the G20 is called to play a role different than that of global institutions. This might almost sound like a truism. Indeed, any of the political commitments made by the G20, in order to be regarded a global decision, has to be tested and discussed, and eventually agreed within a competent institution, having followed the applicable processes and rules.

The G20 is called upon to fulfil an important role for global development what cannot normally be done in global institutions. Such a role entails, at least four important aspects, where the characteristics of the grouping can constitute major strengths.

### **The G20 as a forum able to make important trade-offs**

The architecture of global institutions was planned along the lines of specialisation. On the one hand, specialisation has its benefits, as it allows each institution to develop knowledge and acquire expertise on a particular subject-matter. On the other hand, the process of specialisation of global institutions, and of the counterparts that relate to them in each member country, have led to fragmented and narrower approaches shaped by the "rules of the trade" in the specific field of the concerned institution.

Increasingly, global development issues cannot be resolved by a specialised approach, demanding interdisciplinary experience, and sometimes uneasy power-sharing among the respective officials responsible at the national level.

It is here, at heads of state level where the added value of a grouping becomes evident. The heads of state can rise above the differences, in approach, across different disciplines and authoritative decisions that address difficult trade-offs. This enables the G20 to become a forum that looks at global development issues in a more holistic way.

### **The G20 as an incentive for governments to impulse solutions to collective action problems**

An important mismatch in today's world is between current global development problems and the political structure. Global problems are usually of a collective nature, and therefore pose collective action dilemmas. That is, these are problems where, should a collective solution be found, all countries would benefit. But no country has an incentive to act solely. Governments are accountable to national electorates and national constituencies upon which they depend in order to remain in power. In this scenario, one of the few incentives governments have, to tackle a global issue with a global lens, is the ability to present themselves as leaders with a certain issue on the international relations field.

The G20 offers a platform for governments to launch those types of initiatives which position them as leaders. One might ask: can this not be done also by a global institution? The fact is that, insufficient attention is given to what one's country does in the bureaucratic and often dry arenas of global institutions. One's country, however, as part of a grouping of a select group of countries, especially, but not only, when it is the host, offers the platform to shed the spotlight on its initiative and hence provides the setting to be perceived as a leader.

### **The G20 as an informal forum**

If the formalities of global institutions constitute a safeguard in terms of representation, accountability and transparency, it is also true that they can easily become obstacles to frank and efficient exchanges among members. In any institution developments takes place because a country or group of countries take the initiative and leadership in championing them and overcomes the politics of identifying allies and refining differences, usually outside of the formal process the institution enables.

Creating the opportunity for officials to identify common and differential lines of thinking, put aside differences, while establishing broader basis for alliances and action, could be considered an important complement to the efficient work of global institutions. The G20 is well-placed to provide this type of venue.

### **The G20 as a grouping involving the biggest, most powerful countries on the planet**

G20 members represent 85% of the world's GDP and two-thirds of its population.

For all its lack of representation of low-income countries, G20 members do include not just major developed, but also foremost major middle-income countries, without whose support is unlikely that development initiatives can prosper in any global institution.

This composition makes the G20 a good thermometer of what is likely to succeed or not, in the "realpolitik" that ultimately circumscribes the realm of the possible in a global institution.

The G20 has a weakness, namely, debate on sensible and fair courses of action not espoused by any of the 20 members may be pre-empted from debate in global institutions. Once an informal agreement among the G20 has been reached, because these countries command the real political power to promote it in global institutions as a debating member, an alternative that non-G20 countries raise may not be seen as of great importance, hence installing a habit of progressively narrowing the debate.

However, the advantage is that once a good initiative is agreed upon at the G20 level, it may become easier to implement within the relevant global institutions.

Summing up, the G20 is positioned to make a major contribution to global development issues. This depends on its ability to complement – not duplicate – the role of global institutions while playing to its own major strengths.



## G20 and development: Reforms in the international economic system

*Manmohan Agarwal*

The G7/8<sup>1</sup> has concentrated on macro management and not usually been concerned with development issues. Occasionally, when it did deal with development issues, this was somewhat tangentially. At the Gleneagles Summit in 2005, the G8 leaders committed themselves to raise aid by USD50 billion by 2010, of which half would be for Africa. Similarly, at the L'Aquila Summit in 2009, the leaders reacted to the worldwide sharp increase in food prices over the previous years and pledged USD20 bn for agriculture. But there are no indications as to how the money will be used to solve the problems in the agricultural sector. Such actions are not part of a coherent plan, making it difficult to even judge sometimes whether the pledges have been fulfilled. Of course, we know that total aid is about USD18 bn – for Africa about USD11 bn – short. To examine the effect of additional aid on agriculture, is even more difficult, though such aid can be very important.

Up until now, the G20 has dealt mainly with macroeconomic issues, given that it has been faced with a severe world economic crisis. Since the main aim of policy making in developing countries is development, and now developing countries have a more significant role in international economic governance, the focus of the G20 is likely to be more on development than used to be the case. Already the agenda for the G20 summit in Korea has development as a key issue. But it is placed in the context of its role, i.e. in rebalancing the global economy, as many analysts and the G20 itself ascribe the financial crisis to imbalances in the current accounts. However, development is an important goal on its own, as expressed in the UN declaration on the Millennium Development Goals (MDGs).

Whether imbalances caused the crisis remains controversial, and there are also many conceptual issues of how balances should be measured. The discussion here does not deal with these issues, but stresses that imbalances should be seen in a global and not a bilateral US-China context, as the global context is important for development. Output in many countries in Latin America (LA) and Sub-Sahara Africa (SSA) grew relatively quickly in the years immediately preceding the crisis, after a prolonged period of stagnation in the 1980s and 1990s. The growth experience in other countries suggests that continued growth at about seven to eight percent over a long period is necessary to substantially decrease poverty and improve other conditions of existence, which the MDGs seek to bring about. To achieve such a rate of growth requires investment of about 30 percent of GDP, and, despite having risen, savings and investment rates in many developing countries still fall short of 30 percent. Instead of attempting to resolve the issue of imbalances by reducing savings rates of surplus countries, the G20 should explore new mechanisms for transferring savings of sur-

---

1 The finance ministers' meetings were held at the G7 level, as Russia was not considered a market economy. It is unclear what role Russia played when these and other economic questions were discussed at the G8 leaders level.

plus countries in better and innovative ways to poor countries in order to raise growth rates there, thus reducing poverty and improving living conditions.

It is necessary for development to be both sustainable and inclusive. Sustainability has to be looked at from both an economic and an environmental point of view. One way to make growth inclusive is through progress on reaching the MDGs.

The economic basis of sustained growth is maintaining a high rate of investment and avoiding large current account deficits that force countries to adopt restrictive fiscal and monetary policies that reduce the growth rate. Countries in LA and SSA, therefore, joined those in Asia in raising savings rates and having current account surpluses or only small deficits. As a result, almost the entire developing world experienced high rates of growth in the years preceding the financial crisis. These growth rates were expected to be sustained due to the high rates of investment, integration with the world economy and the increasing role of private actors in creating a favourable balance of payments position. Increasing integration raised exports and rapidly growing remittances resulted in favourable current account positions. A greater reliance on foreign direct investment rather than aid also helps growth because of its greater certainty and potentially greater effect on improved technology, management practices and access to foreign markets. Aid is uncertain because of political considerations, and its withdrawal can lead to a severe disruption of growth. Bank loans, on the other hand, may create debt crises because of unsustainable debt servicing.

The policies of developing countries have been vindicated by their quick and often strong recovery from the financial crisis despite setbacks to exports, remittances and, in some cases, private capital inflows.

Reforms in the international economic system would improve prospects for developing countries. The International Monetary Fund (IMF) was established to provide loans to finance balance of payments (BOP) deficits. But the conditions attached to these loans are very onerous, so disliked by developing countries. Consequently, and particularly since the Asian financial crisis of 1997, developing countries have followed policies that lead to BOP surpluses, thereby avoiding having to approach the IMF for loans. Such reserves mean, in essence, that poorer developing countries are lending to richer countries, rather than increasing investments in their own countries. This situation cannot be remedied merely by a small reshuffling of quotas and voting rights at the IMF. A vote from the majority of developing countries for any policies adopted by the IMF would be necessary for the IMF to regain the trust of developing countries, but these might then call for the entire system of conditions attached to IMF loans and their underlying philosophy to be overhauled. There is no evidence that the richer countries are willing to accept such a change.

Maintaining a high rate of growth is an essential part of any strategy to achieve a permanent reduction of poverty and thus generate inclusive growth. However, the nature of the growth also matters. Growth in Africa and its impact on poverty has been greatly influenced by performance of the agricultural sector, as most of Africa's poor live in rural areas and prices of food govern their access to food and adequate nutrition. Also the allocation of aid should

be changed. Too small a proportion of aid has been going for productive purposes or for infrastructure. Aid to agriculture has dropped sharply. Even if the promises made at L'Aquila reverse this trend, it is essential that agricultural aid be part of a comprehensive reform of policies regarding the agricultural sector. Productivity in agriculture has been slowing down due to shortcomings in the international system of agricultural research and its relation to increasing capacity in national systems to undertake adaptive research geared to make optimal use of international breakthroughs.

Another important aspect of an inclusive strategy is to have special programmes that reach the poor. These special programmes must combine some form of income generation with access to good education and proper health facilities. Experience in a number of developing countries suggests that social programmes are more effective when civil society is closely involved in their design and implementation. The G20 should make it essential that international development banks and their own aid agencies involve civil society in all their loans for social programmes.

Then there is the question of sustainability of growth from an environmental point of view. Climate change will seriously jeopardise the economic condition of some of the poorest people. Obviously, one hopes that governments of the richer countries can convince their people of the necessity to make changes in their lifestyle in order to limit carbon emissions, thus limit climate change. Prospects of a deal that would bring about this desired result do not seem very bright at the moment. But there is considerable support – including an agreement on funding – for a policy that could reduce emissions called Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD). The G20 could help to resolve some of the procedural issues that are holding up the implementation of such policies.

In the likelihood of a delay in reaching an agreement for a deal on emissions, it is important that developing countries begin to adopt policies and make the necessary investments to mitigate the effects of climate change, which will otherwise be inevitable. Here again, the G20 can provide a lead by encouraging research on mitigation actions and in providing the funding for developing countries to undertake these necessary investments.

In conclusion, discussions on development issues at the Korea Summit need to deal with how to transfer savings from countries with too much savings to developing countries that need to raise their investment rates, how to increase agricultural productivity and make development environmentally more sustainable.

## Rising above political boundaries may hold the key to G20 success

*Vinay Kumar Singh\**

In the twenty-first century, most people around the globe are willing to think globally and act locally. Ironically, it is governments that are still unable to extricate themselves from tight-jacketed mindsets, which should not come as a surprise since governments exist at the expense of a division of humanity into compartments and often act with the unstated objective of promoting their own interests at the expense of others. An analysis of the performance of and constraints suffered by all major multilateral organisations formed during the last century clearly reveals that one of their greatest limitations was the inability of the participating members to rise above their own partisan interests.

Human societies have a tendency to organise themselves in groups and identities, and political units, or the nation-states, have emerged as the most important form of this in the last few centuries. Nation-states are today the most acceptable form of social organisation for many reasons, including democracy, dissolution of the family and the liberalisation of religion. However, as technology shrinks the world further and as the interests of individuals extend beyond national boundaries, there is an increasing tendency for people to look beyond their national identity. It is this very tendency that has led to the creation of such regional blocs as ASEAN and the EU, along with a plethora of such experiments as the G7, G8, G33 and G20. Of all these, the G20 seems most promising because of its wide representation in terms of regions and development status, and yet its future success may be determined primarily by its ability to represent the interests of non-members without actually involving them.

### **Key relevance of financial policies**

A nation-state is not a homogenous unit, nor are two such units equally representative of their respective societies. Equating the interests and views of a nation having a population of five hundred thousand individuals with those of a nation with a billion or more inhabitants will not serve anyone's purpose, and yet unless the interests of every group are taken into consideration, any progress in a multilateral organisation will be at best questionable and controversial. In many ways, this aspect defines the limitations of a group like the G20. So far, it has focused on issues that are extremely important, of widespread concern and yet acceptably vague. Thankfully, its agenda has revolved around financial aspects, development and its sustainability. Financial aspects, especially those related to the global financial architecture, have all nations and all people as stakeholders. A crisis at a Greek bank can play havoc for investors in Costa Rica and Malaysia, and people of all three countries may look forward eagerly to a meaningful contribution from a G20 summit that may help to im-

---

\* The views expressed in this article are entirely the personal opinion of the author and do not represent the views of any government or institution.

prove their financial health. In this sense, the focus on stabilising the international financial architecture is a policy that the G20 must continue in the short run.

### **New taxes on the financial sector**

The recent global crisis has been a stimulus for the strengthening of the G20 and has led to the consideration at G20 summits of proposals of unprecedented significance. The discussion of a 'tax on financial transactions' or a 'bank tax' is one such example. This proposal, which emanated from IMF research, was taken seriously at the recent summit in Canada, raising expectations that it may soon be possible for the major powers to coordinate even their sovereign policies. Notably, the proposal was discussed in a G20 forum even though the groundwork had been done by IMF researchers. In many ways, it highlighted the transformed role of both the IMF and the G20 and may serve as a prelude to changes in their respective roles in years to come. While that is happening, it will be appropriate for the G20 to ensure that it remains free from the criticism that the IMF has had to face.

### **Criticism of the IMF**

Some of the major criticisms directed at the IMF in its heyday, and especially during the Asian financial crisis, concerned its inability to adopt a single, uniform standard in policy advice free from political partisanship. Even though it was backed by major powers in the world, its role could not rise to a level where it would have become the crucial actor in the achievement of a global financial consensus. One of the reasons for this may have been its inability to indulge in broad-based research or to permit alternate views that did not form part of its policy to be discussed on its platforms. It is a mistake that the G20 would do well to avoid. Academic research and open discussion in which contrary views are welcome are the hallmark of the transparency and integrity of any organisation, and unless they are freely allowed and encouraged, the objectives of an organisation will invariably continue to be suspected and questioned, limiting the acceptance of its legitimacy and support for its decisions. Clearly, if the G20 is to make any real headway towards developing a stable and sustainable international financial architecture, it must create ways and means of encouraging independent analytical studies and research that can then be discussed on its platforms and lead to non-partisan conclusions for the G20 policy-makers to consider and discuss for action and implementation. The G20 must not allow itself to become a proxy channel of any other institution, since its credibility and acceptance would then be severely undermined.

One of the major challenges confronting the G20 today is to arrive at a consensus for future policy-making in order to restrict the impact of the recent global crisis and return the global economy to its growth trajectory. Another of the goals it has set itself is sustainable human development. In the author's opinion, it will do the forum immense good if it is able to consider the two objectives as one, for the crisis was, like similar crises in the past, a result of the misallocation of resources due to errors of judgment, which were in turn caused by certain instabilities inherent in the expectations-based asset market and its indissoluble linkages with capital markets.

### **Causes of the financial crisis**

The global crisis of recent years is neither the first, nor will it be the last, and is, in fact, part of a recurrent phenomenon that manifests itself in asset price cycles. Japan's asset bubble and bust in the late 1980s and the Asian financial crisis were part of the same phenomenon, which revolves around two factors, the role of expectations in asset-pricing and the perception of risk in capital markets. Both are based on human perception rather than being measurable in objective terms and are therefore inherently unstable, giving rise to the possibility of wild fluctuations, instability and crisis. In the author's opinion, the inability of academics to understand and explain this phenomenon fully is largely a result of the fallacy created by the rational expectations hypothesis, which suggests that the expectations of a large mass of people will invariably coincide with stable market equilibrium. Many of the relevant factors are still not fully understood or appreciated, and finding a long-lasting solution to these risks is unlikely without an adequate understanding of the phenomenon. The G20 will be well advised not to rush into such ad hoc measures as a 'tax on financial transactions' without fully understanding their basis or implications.

Instead, it will be better if the G20 looks into the issues of strengthening global social capital by promoting transparency and denouncing practices that increase global financial externalities. Tax havens, opaque banking practices and reluctance to cooperate in transnational financial regulations and investigations are some of the very important obstacles to global economic efficiency that need to be discussed as a priority, with a view to reducing corruption and strengthening the integrity of systems that are geared to stability and development. Given the increasing clout of the G20, it has the potential to become a catalyst for a 'cleaner' global financial architecture, which would itself reduce costs due to the 'risk' in financial transactions and improve stability.

The world today is on the lookout for a group whose identity will not challenge the sovereignty of the nation-state, which will neither be partisan, nor become a proxy for a selected group of powers and which will serve the broader interest of enhancing the global social capital that will enable transnational economic and financial activities to thrive. In a group of this kind, every non-member will also be a stakeholder, even if it does not have a say in the group's decision-making. This is perhaps how the G20 can be successful.



## Pro-poor development: G20's political and ethical responsibility

*Gabriela Sánchez Gutiérrez and Pablo Yanes Rizo*

It is time for the G20 to hold a debate within its ranks on the implications of the global economic and financial crisis which came to a peak and has since diminished. It is time to take this crisis and use it as a basis for a precise diagnostic analysis as to the systemic causes of the crisis. The G20 needs to adopt a new model of development that goes beyond market logic, boundless growth and the destruction of the environment. There must be a new civilized and civilizing pact in which the aspirations and common needs of the human species prevail, and in which public interests gain priority over private ones. Social progress needs to be re-defined in terms of well-being, strengthening of rights, extension of freedoms and the blooming of that creative potential which is within each and every person.

### **Far-reaching proposals for the G20**

In order to define what initiatives the G20 should embrace to promote pro-poor growth and sustainability in developing countries, it must be emphasized that many of the proposals in this regard have been maturing over the last few decades. One of the more solid ones is the Manifesto for International Action Against Poverty, formulated in 2002 by Peter Townsend and David Gordon. Among the more important measures that they proposed and that we consider relevant for discussion by the G20 are:

- *All developed countries should adopt a legally binding minimum level of 1% of their GNP for overseas development assistance.*
- *The UN, together with other international agencies and national governments, should agree on an action plan for a more balanced distribution of resources within and between countries (with particular reference to Commitment 2 of the Copenhagen World Summit for Social Development). Just as the 1945 target of 0.7% GNP for overseas development assistance on the part of the developed countries will be replaced by a 1.0% target, every government should adopt an upper limit of income inequality; for example, a value of 0.4 of the Gini coefficient.*
- *The international community should agree on an operational definition of fair trade.* Representatives from each world region would need to agree on the terms of a framework plan, to be endorsed by a majority of the UN and implemented in successive stages over a period of 10 years. This would necessarily involve the removal of protective agricultural subsidies in rich countries to allow for fair trade. Domestic food production and fair prices for food commodities produced in the developing countries should become general rules monitored and enforced by the World Trade Organization.
- *The international community should introduce a law for corporations.* The priority must be put on requiring transnational corporations (TNCs) to curb anti-social activities and forego excessively high profits from poor countries.



- *Introduction of an international financial transactions' tax to be administered by the UN.* In the first step, a tax rate of 0.2 % would be due on all currency exchanges at banks and currency exchange offices. Half the gross revenue would be administered by the UN to subsidize programs for the benefit of children in developing countries.
- *Reconfiguration of international financial institutions.* Membership should be open to all countries, funded by an agreed percentage of national GDP, for example, with equal regional representation on governing councils and committees, and a five-year rotation of the chair. Every five years the strategy of the institutions should be subject to a majority vote at the UN.
- *Guidelines for transnational corporations.* Each TNC will be required to draw up policy statements both for employees (including employees in subsidiary companies) and for countries in which the TNC has operations on a significant scale. The former should include specifications of employment conditions and rights for all types of employees. The latter policy statement should be subject to approval by a consultative body representing the TNC, the national electorate in the "headquarter" country and the governments of the countries from which overseas profits are derived (one third representation each).
- *Further democratization of the UN.* Representation of the most populous countries and of the poorest 100 countries should be increased on UN committees, especially on powerful economic and social committees. The objective would be to move forward step by step to equal representation of regions and population size.
- *Agreement on an international poverty line.* The international poverty line should define a threshold of income (including the value of income in kind) ordinarily required in different countries to surmount material and social deprivation (subsistence level). The threshold definition must be backed by demonstrable scientific consensus, and not be subject to political convenience.
- *Monitoring of antipoverty policies.* Further steps need to be taken to fulfil the agreement of the 1995 Copenhagen World Summit for Social Development, and to publish annual anti-poverty reports by governments, but also by the UN and other principal international agencies. This process must involve regular quantitative evaluation of the contribution by different national and cross-national policies to reduce poverty.

### **New approaches to development cooperation**

Several of the above proposals could be subject to minor changes and adapted to meet specific conditions, but they point in the right direction in terms of re-building international relations by fighting poverty and closing inequality gaps within and between countries in a more inclusive, UN-type framework. They also promote the growing democratization of international agencies.

Within the context of international cooperation, the emergence of new donors like India, South Africa and China, among others, poses challenges but also provides opportunities for

a new international financial architecture. Several countries of the South which are classified as middle-income countries, have become members of the G20. They have gone from being beneficiaries to donors of development aid, even though the majority of the poor population of the world and the largest inequality indexes can be found in those same countries, particularly in Latin America.

Even though developed countries belonging to the OECD's DAC continue to be the most important sources of international development assistance, it is clear that little by little, the participation of countries not belonging to this organization has been increasing. Currently the entire system of international cooperation is in question. In this framework, South-South cooperation is expanding, which opens up new perspectives of great relevance. It is imperative that cooperation between Southern countries avoids the mistakes and abuses which have characterized North-South cooperation.

On the other hand, thinking of international cooperation from a traditional angle by referring only to the ODA definition, runs the risk of not only leaving out important interactions that have a beneficial impact on development, but also of ignoring certain activities that civil society organizations and academia have undertaken. These organizations play a key role in promoting and playing a watch-dog role with regard to the quality of South-South cooperation and assist in making sure that it indeed contributes to the eradication of poverty and to the creation of opportunities which empower people and enable poor populations to re-claim their political, social, economic and cultural rights. It is crucial that these actors and their proposals be recognized together with other approaches and modes of international cooperation based on a new understanding that looks at development from an ethical and human rights perspective. This new orientation in no way replaces the responsibilities and obligations of states which must keep their focus on issues such as eradicating poverty, gender equality, social equality and inclusion, environmental sustainability and creation of stable, well-paid work with a high level of social security.

More than ever before, we see the urgent need for new ideas and to consolidate mature proposals into concrete realities. For that to happen both the political will must be there as well as the courage to drive these big changes. Without these there will be no solution to poverty, under-development and growing world inequality.

The G20 thus has the great ethical and political responsibility to meet the demands of societies who wish for the kind of global transformation that responds to the crisis of civilization that this world is facing. Either we will all be saved, or no one.

## **Bibliography**

*Townsend, P. / D. Gordon (2002): World poverty: new policies to defeat an old enemy, Bristol: Policy Press*

## Democratic economics and improved governance: Development policies for the G20

*David Mayer-Foulkes*

### **Democratic economics**

The main challenge facing global development policy is to promote democratic economics; i.e. to ensure that economies function and grow for the benefit of majorities everywhere. Yet the current policy mix is indistinguishable from what a syndicate of the very rich and powerful would recommend. What role can the G20 play in the current situation of globalisation and crisis?

Two forms of governance rule human affairs – governments and markets. Each can promote equality and welfare, or concentrate power and wealth. When capitalism arose in the 18th century, the question was, how can the pursuit of self-interest lead to the public wealth? Adam Smith's reply was, through competition, whose "invisible hand" would allocate resources efficiently and make public action unnecessary. However, markets do not correct inequality or generate public goods and when some agents wield too much power, markets become inefficient and wealth concentrates in fewer hands. Likewise, government only promotes the interests of the majority under special circumstances. Government can promote equality and welfare but only if the majority controls the powerful. This initially occurred through revolution in the US, France and England, ensuring democracy through property rights and the rule of law. What mattered most were the rights of the many and the weak.

The tools provided by government and markets to promote equality and welfare complement each other. Competitive markets do what they do more efficiently than government, but what they cannot do requires another form of governance.

### **Globalisation, corporate power, and current economic policy**

A prominent feature of globalisation is foreign direct investment (FDI). While global exports reached USD17 trillion in 2007, sales of foreign affiliates of transnational corporations (TNCs) reached USD31 trillion, 43.7% of US GDP. Globalisation has strongly increased the concentration of production. 89.3% of global FDI inflows were mergers and acquisitions. The world's top 100 non-financial TNCs produced 14.1% of 2008 output. Only 23 countries are bigger than some of the world's corporations, while 69 corporations are larger than 100 countries or more.<sup>2</sup>

Industrial concentration is a standard feature of production. In the US, from 1935 to 1992, the four largest firms in 459 industries produced 38.4% of shipments, while from 1992 to

---

2 All data sources are mentioned in Mayer-Foulkes (2009). To which are added UNCTAD's World Investment Report 2010, US economic censuses and the World Bank's database.

2002, 40% of manufacturing value was added in the 200 largest manufacturing companies. The risk is that the concentration of global economic power could continue to rise and reach US levels.

US corporations have increased their economic power but at the same time reduced their accountability through globalisation. Consider this: on average, between 1983 and 2005 US foreign affiliate profits equalled 90.7% of the US trade deficit. To the extent head corporations control their affiliates, these profits were nominally in (untaxed) foreign but actually in US hands, implying the US external imbalance was much smaller than thought.

Increased corporate power has deeply affected US politics. By overturning a century-old restriction, the Supreme Court allowed corporations unlimited spending in federal elections (Savage 2010). This was the result of long-term concerted political action involving the history of Supreme Court nominations. In weakening the control of the powerful by the majority, US corporate power has weakened US democracy in pursuit of its own interests.

It is astonishing that the dominant economic viewpoint sees perfect competition as a close approximation to reality, when in fact market concentration is the norm. Concentration distorts prices, efficiency, distribution and politics. An objective, democratic choice of development policies would complement free market policies with public policies. Instead of that, we see a highly selective choice of policies that match the interests of the staunchest supporters of free markets, namely big corporations with market power. This choice supports free markets and sidelines those policies that address inequality, public goods, market power, health, education, urban development, infrastructure and technological innovation.

Successful economic development requires a balance between markets and governance at the global level. The challenge is to achieve governance without a global government, and without the inefficiencies of government. Such governance must include the regulation and taxation of TNCs.

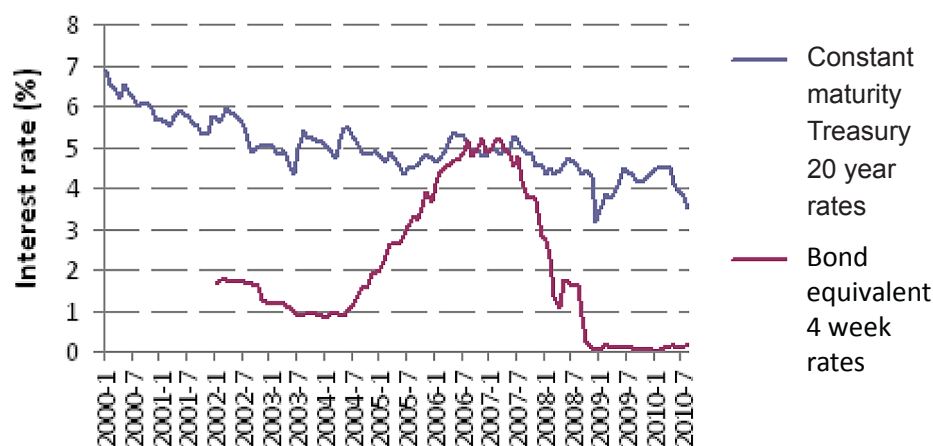
### **Impact of globalised corporate power**

It is generally thought that the economic crisis of 2008 was caused by the combined collapse of the housing and financial market bubbles. However, paradoxically, the crisis originated at least in part, from the huge TNC profit flows. These generated a global savings glut – or an investment shortfall – that dramatically lowered long-term real interest rates, causing the international housing bubble that finally burst and destabilised the financial system (Mayer-Foulkes 2009).

At present the financial and housing markets are becoming more stable, but long-term interest rates continue to be low, and are in effect mostly independent of the short-term interest rates controlled by the Fed (Figure 1). TNCs continue to generate high enough profits to supply the global financial system with more funding than is actually in demand for investment. The global incentives for investment continue to be low. Lowering interest rates or increasing spending to increase consumption does not raise TNC investment incentives

to any significant degree. Global investment has been slowing down over the last decade for structural, not cyclical reasons. These have consisted mainly of investment shortfalls in publicly-provided services that complement private investment, such as infrastructure, education, health and technology.

**Figure 1: Long- and Short-Term Treasury Interest Rates, 2000-2010**



Data source: US Treasury web page, read 9/8/2010.

In short, the global imbalance between markets and governance has led to an investment slowdown. Transnational corporations are behaving mostly as free-riders when it comes to providing essential, publicly-provided investment. Harmonising taxes for TNCs is an inevitable requirement of global integration. TNCs have other global impacts that urgently call for regulation, such as climate change and the nutrition transition towards poor diets causing serious and costly health problems.

### Global governance and the G20

Taxing and regulating TNCs faces three main objections.

- Tampering with markets is counter-productive.

A global balance between markets and governance is essential for democratising the economy and achieving development. The main objection to a harmonised system of taxes will come from TNCs. Why does the World Bank (2010) claim that infrastructure is badly needed, yet fails to suggest harmonising TNC taxes to fund it? Are countries providing TNCs with cheap labour supposed to *borrow* for infrastructure investment?

- TNCs represent the national interest of their country of origin, and should be protected.

In the concert of nations, this position is undemocratic and works against the global common interest. The national interest of the weaker G20 countries includes democratising their own economies, which in turn requires a level playing field with global corporations. These opposing interests make G20 an excellent forum for advancing global economic governance

and development. Weaker countries have enough representation to make a difference, and share enough common ground with other developing countries to make such improvements beneficial to all.

- A crisis is the wrong time to raise TNC taxes.

However, while TNCs continue to generate oligopoly and technology profits, investment incentives remain low. Investment requires its public complements. Also, TNC tax loopholes (small island tax havens held *one quarter* of FDI inflows and stocks in 2009) penalise domestic producers, especially in developed countries, reducing levels of employment and investment. Finally, an urgent requirement for stability is healthy public finances.

The risk of increased economic concentration combined with the low reach of international law creates an unprecedented threat to democracy, arising from capitalism itself. Countries compete for FDI. As they compete for lower taxes and deregulation, there is a race to the bottom in governance. What is needed instead is a race to the top. This requires international agreement and international accounting.

An important point relating to transfer pricing is to measure value added at the point of final sale. This will tend towards progressive taxation that will compensate for low wages, and generate funds for development. International initiatives that raise the quality of governance, such as cash transfer programs, have been successful. Many more innovative ideas in governance are needed. For example, governments could issue lists of desired goods such as roads, hospitals and schools, together with a tax equivalence. Tax payment could come in the form of building these facilities. This would generate pricing competition among the different goods to be provided and among the different providers, thus reducing administrative costs and corruption in government.

## Conclusion

The current economic and political cross-roads requires us to look beyond a distorted conception of free market policies that supports the interests of the very rich. Concentration of production is an inescapable feature of contemporary capitalism and requires global governance to establish necessary regulation and taxation and to generate indispensable public investments that will democratise and to revitalise the economy.

## Bibliography

- Mayer-Foulkes, D. (2009): Long-term fundamentals of the 2008 economic crisis, in *Global Economy Journal* 9 (4), Article 6
- Savage, D. G. (2010): Supreme Court OKs unlimited corporate spending on elections' in: *Los Angeles Times* 22 Jan. 2010
- World Bank (2010): G20 and global development; online: [http://siteresources.worldbank.org/DEC/Resources/G20\\_Framework&MAP-WBReport-TorontoSummit-2.pdf](http://siteresources.worldbank.org/DEC/Resources/G20_Framework&MAP-WBReport-TorontoSummit-2.pdf)



## G20 and global governance: Challenges and impacts

*Haibing Zhang\**

It is the global financial crisis that brings G20 into the centre of global economic governance. In 2009, the Pittsburgh Summit designated the G20 as the premier forum for international economic cooperation, however, some very fundamental questions have not been solved yet, one of which is the G20's institutional character, which should, at least, include rules for the summit meetings and for membership and address legitimacy and effectiveness. Now, the Seoul Summit is approaching and we are moving towards a post-crisis world economy. What are the G20's biggest challenges in the near future? What kind of impact does the G20 have on emerging powers? This article aims to provide some analysis on the above questions.

### **G20 should put itself in order**

Now, the G20 is moving from a temporary crisis bailout mechanism towards a permanent organization for global economic governance. Generally speaking, as an international organization, the G20 should have a legal status and become a formal institution. However, until now the rules for the meetings, including agenda-setting and decision-making, work on an ad-hoc basis. At the same time, the G20 faces the problems of legitimacy as many medium-sized and small countries, especially from Africa, are not represented. It is just as if we have not built the house but have prepared the banquet first. An even more serious problem is that there are only 20 seats but more guests want to be invited, so the table size is still open to consideration.

In the long run, we should first improve the working mechanisms of the G20, which means establishing clear meeting rules, which have to be observed by each country in the chair. At the same time, the G20 needs to build up its network to compensate for its inadequate representativeness. The network should include important international economic organizations such as International Monetary Fund, World Bank, World Trade Organization, NGOs and United Nations, and also regional organizations like the African Union. Indeed, the output legitimacy of G20 based on its effectiveness has been proven by the G20's positive performance in dealing with the global financial crisis. In the long run, the G20's legitimacy largely depends on its responsibilities and actions.

---

\* The article reflects the author's personal views.



## **G20 faces many challenges**

Acting as premier economic cooperation platform, can the G20 do well in the coming years? This not only depends on effective coordination but also on concrete funding and efficient implementation. There are at least three big challenges for the G20.

Firstly, the relationship between G8 and G20 is the key issue for the development of G20. From the perspective of the global power structure, the G8 still takes centre stage of global governance. Even with the emerging role of the G20, the G8 continues to exercise comparatively stronger influence than any other powers in the world. In some sense, G20 is an enlarged G8. Possibly, the G20 is just a new tool for the G8 to control the world economy. In the perspective of the G8, the G20 is a good tactical ploy to integrate most of the emerging powers into a common system and restrict them from setting up another kitchen. If the group of emerging powers does not develop strong links of coordination and cooperation, their voice will be very weak. Compared with G8, the emerging countries seemingly have not had enough time for preparation. At the same time, we have to admit that under the mechanism of the G20 nearly every member country possesses different interests. There are not two countries sharing exactly the same interests, which also gives the G8 enough space to set the agenda and push through certain agreements. In the near future, G20 will continue be a loose forum instead of a powerful global governance actor.

Secondly, with the fading away of the financial crisis, the G20 faces the challenges of declining motivation. During the serious period of financial crisis, the international society showed a strong willingness to cooperate on the necessary bail-out. In the post-financial crisis period, the threat of economic decline becomes smaller and smaller, and the political will of cooperation naturally becomes weaker and weaker. Hence, the challenge of finding a common agenda which can reunite the 20 members is very important. Is the development agenda the best choice as core theme for the up-coming G20 summit? In my view, the development issue is, no doubt, very important but whether the G20 is the best player on it should require prudent thinking. As to global economic governance, the G20 can do many things that will be also very helpful to the world economy, such as reforming the international financial system towards more just, transparent and fair principles; anti-protectionism and building-up a more open and equal economic environment.

Thirdly, the G20 faces the dilemma of effectiveness and legitimacy. 20 members is already a big size, and for the consideration of efficient coordination the G20 should be limited to 20 members. However, the question how to realize adequate representativeness is still unanswered. Is it possible to exclude some members and invite in new members? In my view, this is very difficult. On the one hand, depriving a right is more difficult than granting access. On the other hand, even if we can realize such a kind of power transfer, this still cannot totally solve the problem of legitimacy. Furthermore, even if we were to enlarge the G20 to a G40, we still face the problem of legitimacy. In short, I think the legitimacy of the G20 is based on its capacity to solve problems, which means that if the G20 can perform well in global economic governance it will naturally gain legitimacy, simply because it is useful and effective.

**For emerging countries the G20 is more a challenge than an opportunity**

The G20 for the first time offered developing countries, typically emerging countries, equal rights in the reform of the international economic system. In the past, developing countries were passive acceptors of international regulations. Thus, the G20 enhances emerging countries' international influence and provides an opportunity for them to express their views on international economic governance. But since more rights mean more responsibilities, the G20 provides challenges instead of opportunities for emerging countries.

On the one hand, most of the emerging countries are new actors in global economic governance, and do not have enough capacities or experiences in dealing with international economic affairs. For example, there are not many Chinese officials or staff in international economic organizations and China's international financial market is still in the primary phase of development. Although China has been listed as no. 2 in the world economy, the quality of the Chinese economy is not good enough and still faces the problems of imbalances and unstable and unsustainable patterns. For most of the emerging countries, from a realistic perspective, their priorities should be to focus on the domestic economy and social development, which represent the solid basis for their long run economic competitiveness and political influence.

On the other hand, the emerging countries' capacities in the G20 are rather limited. G20 members have diversified interests and the coordinating cost is very high. So the G20 may be just a talk-shop instead of a specific cooperation mechanism. We cannot neglect the reality that besides the mechanism of the G20, some small groups exist, such as the G8, BRIC, small countries group and like-minded groups. And emerging countries also face the problems of different interests. They should consolidate their cooperation; otherwise their influence in the G20 will be rather weak. For the sake of building a more healthy international economic system, the emerging countries should be an active reformer instead of acting destructively. Without effective cooperation of all members of the G20, we can achieve nothing.

Anyway, the G20 is a good beginning for the next few decades, and we hope it can act well for new international economic governance.

## Is there a Brazilian strategy for the G20?

*Alexandre de Freitas Barbosa and Ricardo Mendes\**

The aim of this paper is to discuss the Brazilian government's position at the G20. We argue that Brazil does not have any definite strategy for the G20. As this forum is still poorly institutionalized, the Brazilian diplomacy has opted for a rather tactical approach. This does not mean that the G20 is irrelevant for Brazilian foreign policy. On the contrary, Brazil is waiting for the big powers to make their moves, in order to be present without aligning itself with any specific country. In this sense, a much more pragmatic approach is noticed in comparison to Brazil's position in other international negotiations.

In this paper, we will not touch on the views of the private sector and civil society concerning the Brazilian position at the G20. First, because there is not enough space here. Secondly, we assume that, for the time being, these actors are following the process, although closely, without any clear-cut opinion. They see Brazil as possibly gaining ground on the global stage but have not yet made up their minds about positive or negative outcomes. That is to say that they are even more cautious than their government.

The crisis of 2008 found Brazil chairing the financial G20, created in 1999 in the aftermath of the Asian crisis. The turmoil that shook the financial world opened up the possibility for making this selected group a forum of world leaders. Since then, four meetings have been held in different places of the world.

In November 2008, the first meeting was held in Washington. At that time, the Brazilian Finance Minister, addressing his American counterpart, welcomed the counter-cyclical policies being adopted by most countries and pledged for a "*democratization of the Bretton Woods Institutions*" (Mantega 2008).

That is, from the beginning Brazil saw the G20 as an opportunity to press for some – if incremental – reforms at the IMF and the World Bank, in order to correct what was seen as an overrepresentation of developed countries within these institutions.

### **No Brazilian appetite for North-South confrontation**

However, Brazil chose to not confront the big powers at a moment when they were facing a big turmoil at home. This can be explained by the fact that all of a sudden the country had been pushed to the centre of world politics.

---

\* The authors would like to thank Ricardo Sennes for his many insightful comments on the first version of this paper.

It is worth remembering that up to that moment Brazil had been very cautious with the propositions made by some developed countries' leaders suggesting an expansion of the G-8 through the inclusion of some emerging powers.

Not only Brazil but also China and India were very reluctant on accepting the invitation for "dessert" at the G8 summits, after issues had been agreed on during dinner. In their view, the G8+O5 initiative, launched at the 2007 Heiligendamm Summit, would solve the problem of the G8's lack of legitimacy without changing the issue of hegemony.

From this perspective, the G20 forum of world leaders was a totally different proposition: A new gathering in the midst of a crisis, having the developed countries themselves to address – and somewhat compromise with – some changes they would never have considered a year before.

Until the change of the G20 structures, Brazil had played an increasingly important role with the G20 at the WTO and during the climate change negotiations that led to the COP-15 meeting in Copenhagen 2009. At these forums, Brazil sought to participate in agenda-setting, challenging the big powers and questioning the lack of legitimacy that, in its view, characterized the negotiations.

### **Assuming responsibility for international economic policies**

Now, among the new G20, Brazil would need to discuss other issues related to global governance which include global financial regulation and the scope of economic policies, always seen as something we should not care about, as "their" problem (Veiga / Iglesias / Rios 2009). Brazil had always had in this field a critical and defensive approach which can be best expressed by President Lula's words stressing that the crisis was a product of "white men with blue eyes".

Thus, the establishment of the G20 required a change of perspective, if a soft one, for Brazilian diplomacy. For instance, up to now, Brazil has not played the North-South diplomacy at G20, which appears there only very mildly in terms of rhetoric only. As the forum is still poorly institutionalized, the country has opted for building varied coalitions with the more powerful members. The main intention of Brazil is to be considered a trustworthy partner.

This approach, from the Brazilian government perspective, is delivering its first results. Thanks to its role at the G20, Brazil was included in other international financial institutions where it had not had a seat before, for instance the Financial Stability Board and the Basel Committee (Galvão 2010).

Moreover, whereas the BRIC members are having side meetings, they do not see it as a straitjacket. Brazil, for instance, is being more pragmatic than usual, even more than China, which already has a global view on most economic matters. That is, BRIC countries may have some common positions on the IMF's and the World Bank's skewed representation, but on other regards they may diverge consistently, such as in the case of the supervision of economic policies and the exchange-rate system.

Brazilian diplomacy is also trying to bring to the table issues related to the Doha Trade Round and climate change negotiations, although not successfully. This is due to the fact that probably no agreement will be reached in these fields before the basic underpinnings of the new global balance of power are determined, and they will only be reached – in the positive scenario – through a discussion of the new monetary and financial regulatory system.

### **Impact on Brazilian foreign policy design**

It is also important to stress that the creation of the G20 has led to a change in the formulation of foreign policy in Brazil. Until 2008, the foreign relations minister would take control of the trade negotiations, in an attempt to raise Brazil's profile in the world scenario. This could be particularly observed at the Doha Trade Round negotiations when, at least at the beginning of the negotiations, Brazil sought to enhance its leadership amongst Southern countries on the grounds that its demands incorporated claims from the whole developing world. In contrast, in the financial field Brazil had rather a low profile stance, with negotiations being followed closely, but not actively, by the finance ministry (Sennes / Barbosa 2005).

Now, this segmented approach has come to an end. Finance and foreign relations ministries must put aside their differences. Although the result is not clear, it can be said that finance ministry representatives are taking a larger role in financial negotiations. That does not mean independence: they are supervised and monitored closely by the foreign affairs ministry, as these negotiations may change the role and position of Brazil in world politics, affecting all other arenas in which the country is already influential.

In this regard, a new Brazilian foreign policy strategy, led by the ministry of foreign relations, might emerge, depending on how the G20 negotiations will evolve and in which way they will affect Brazil's international status and profile. Therefore, if it is true that Brazil does not have any definite strategy for G20, which explains why it has not brought to the fore its North-South hat, the present attitude would not preclude a more offensive position in the future.

If a positive deal is reached – which from the Brazilian perspective would be to consolidate the G20 as the only legitimate forum for discussions on the international economy (in opposition to the G8) – it may be expected that Brazil would feel more at ease to support an extension of G20's scope of action and structure of representation.

Parallel to the outcome of the G20 negotiations, a possible change of the Brazilian approach will also depend on the performance of the Brazilian economy vis-à-vis the world economy, and on the expected changes this will bring to the strategies of domestic constituencies and the perception of Brazil by the international community.

Though it is unlikely that Brazil will shift the course of its foreign policy from seeking to forge leadership among less developed and developing countries at international forums, in case of strong economic growth the Brazilian business sector, especially the banks and

financial industry, would probably become a more active player in international affairs. On the other hand, industrial sectors might ask for more protection in a situation of a constant overvaluation of the currency. The latter are the sectors mostly dependent on exports to regions like Latin America and Africa. Consequently, they are more willing to “buy” the South-South discourse.

As a result, it is possible to foresee a scenario in which Brazil’s economy will continue to grow steadily – although with increasing imbalances in the trade account – but not to the point of bringing about a truly offensive approach at the G20. Brazilian strategists and policy-makers would, then, seek to combine economic pragmatism with a Southern approach similar to the one pursued at other multilateral forums (e.g. the World Economic Forum and the World Intellectual Property Organization).

To conclude, the ultimate interest of Brazil in the G20 is to institutionalize its role as a decision maker in all arenas of the international economy, alongside other BRIC countries. Once that is consolidated, Brazil will most likely try to combine a strategy that strengthens its political position as leader of the developing world with a pragmatic approach that defends the economic interests of its increasingly internationalized business community. The balance between these two approaches will depend on the pace and nature of economic growth in Brazil and the latter’s impact on Brazil’s international status.

## Bibliography

- Galvão, M.* (2010): G-20: Mudança e Desafio, in: *Valor Econômico*, São Paulo, 18 August
- Mantega, G.* (2008): Words by Guido Mantega, Finance Minister of Brazil, at the dinner hosted by US Treasury Secretary Herry Paulson, Washington, DC, 14 November
- Sennes, R. / A. F. Barbosa* (2005): Brazil and several G’s: foreign policy dilemmas in a globalised, asymmetrical and unstable world”, in: A. F. Cooper / J. English (eds.), *Reforming the international system from the top: a G20 leaders’ summit*, Tokyo: United Nations University Press
- Veiga, P. M. / R. M. Iglesias / S. P. Rios* (2009): O Brasil, a Crise Internacional e o G-20, in: *Breves Cindes* 16, Rio de Janeiro, March



## Possible impacts of the G20 on developing countries

*Youfa Liu*

It is a fact that the lingering international financial crisis has converted the G20 into an important international forum, within which all major economies and economic institutions will gather periodically to deliberate and decide on issues related to the oversight and management of the global economy. It is also a general expectation by the international community that, during the post-financial crisis, the G20 is likely to increase the influence of all developing countries on the rules of the international economic game, including capital, trade and technology transfer.

### **New opportunities to exercise rights in international affairs**

Due to historic and political reasons, many developing countries in the past had to accept international economic rules that were detrimental to them in terms of trade and investment. In addition they have long been subjected to the global mechanisms of supervision, reform and guidance, which were shaped and dominated by the developed countries. Many developing countries have been sliding down to the lower end of international goods and value chains, and have accordingly become subjects to international exploitation. However, with the ascendance of the G20 which is still undergoing institutionalisation, things may change to some extent. During future consultations, developing countries could bargain as a political group, in order to effectively maintain their positions. During the future policy coordination, they could jointly put forward their policy stance and bargaining chips, in order to effectively protect their rights. During the future negotiations on establishing the global economic order, they could put forward their principles, policy proposals and alternative formulas, in order to effectively exercise their rights. For the first time in history, developing countries will be at par with the developed countries, sitting at the same table, discussing and resolving issues that are near and dear to their hearts. This is a historical opportunity they will not want to miss. Thus, developing countries are expected to form an effective interest group, directly participating in deliberations and resolutions on issues that will have immediate bearings on their mutual economic wellbeing. They will express their direct common concerns, and effectively exercise and protect their collective rights in the process of reforming the current international institutions and forming the new global economic order.

### **New channel to seek additional capital for development**

Capital is both the bedrock and lifeline for developing countries in their efforts to maintain sustainable economic development, as well as an important precondition for them to catch up with industrialisation. During the post-financial crisis era, they could and should seek more capital support within the framework of the G20 through the following areas:



From the perspective of foreign trade, many developing countries enjoy endowments in natural resources and energy, and have been undergoing a process of industrialisation in various stages. They could fully utilise their comparative advantage in endowments and further elevate their manufacturing and processing capacities, in order to increase exports and generate more income from foreign trade. This would, in turn, help generate more revenue for their national economic and social development. For that matter, they should increase capital input and technological innovation. Further, by improving quality and diversity of their commodities, they could profit from increasing demand from customers in the developed countries.

From the perspective of investment, many developing countries still have to work on accumulating national capital, coming from a situation where they were highly dependent on foreign capital inflows. However, the post-financial crisis era has brought about a new window of opportunity for many developing countries in terms of seeking direct foreign investment. As the global economy is slowly re-gaining momentum, an increasing amount of international capital is redirected to countries that are endowed with natural resources. Concurrently, the prices for natural resources and energy are rising, in proportion to the increase of market demand. Therefore, developing countries could coordinate their FDI policies and lobby for the developed countries to enter into closer cooperation in the regard mentioned above, through summits and ministerial meetings of the G20.

From the perspective of international development assistance, many developing countries have been heavily dependant on foreign aid for national development. It is a sad fact that the financial crisis has made things worse for the said countries. During the post-crisis era, they are faced with more challenges, both in catching up with the on-going industrialisation and with the pending low carbon economy. Therefore, they have to exert more collective efforts and negotiate with the developed and emerging countries for additional assistance on top of the commitments they have hitherto made. The G20 will serve as an effective platform in this regard.

### **New market strategies to ensure sustainable development**

For the majority of developing countries, foreign trade has been the main engine to realise their economic and social development. Upon entering the 21st century, especially during the financial crisis, many countries took advantage of their natural endowments and comparative advantages in manufacturing and processing capacities, maintained the momentum of development, and for the first time in history even helped to pull the world economy out of the recession. However, the global economic situation has been changing to the disadvantage of the developing countries since the financial crisis. In the context of weak domestic consumption and economic recession, developed countries and emerging economies are employing policies to encourage economic recovery and growth, which sometimes directly collide with equal efforts by the developing countries. Therefore, the developing countries should step up their policy coordination and forcibly request the developed countries to

adhere to unilateral preferential treatment with regard to market entry. They should urge the developed countries to avoid implementing policies that are detrimental to the economic development of the developing countries.

### **Better technological transfer**

The level of development in science and technology is an important benchmark to judge the stage of development of any nation in the current world economy. It is a sad fact that developing countries have been trailing far behind in this field all along. And, things have become worse for the developing countries. The international financial crisis has ushered in the low carbon economy ahead of time, thereby increasing the importance of new technologies for clean and alternative energies. For countries that are still undergoing the arduous process of industrialisation, it amounts to ‘mission impossible’ to allocate the financial resources necessary to cope with this new challenge when they are still bogged down in the pressure to fight poverty. Therefore, they only have two choices. They can step up their efforts in technical R&D by themselves. Or, they can join hands and fully utilise the G20 mechanism to push for the developed countries to expedite the technology transfer and to provide more funding for the latter to apply the relevant technologies.

## How should the G20 promote efforts for South-South cooperation and trilateral activities?

*Helmut Reisen*

At the beginning of the 21st century we are witnessing a structural realignment of the global economy, with the world's economic centre of gravity moving towards the East and South. The shift is mostly explained by the sustained, superior growth of large emerging economies such as China and India. The move from G8 to G20 as the premier forum for international economic cooperation reflects this realignment. Economic transactions among the South in foreign direct investment, export credits, trade and aid have intensified. The emerging economies increasingly shape the global macro-economy, not least as *financiers* to the poor South and increasingly to the old North.

The question raised by the editors of this volume is not *whether* the G20 should promote South-South cooperation and trilateral activities. While there might be good reasons for such a question – e.g. dilution of ‘best’ (Western) standards, the undefined legitimacy of the G20, the merits of competition versus coordination – the question raised is *how* the member states of the G20 could do this. The following article will provide first answers to this question.

### **Identifying win-win areas for compact development cooperation**

The comprehensive nature of South-South cooperation and the existence of zero-sum game situations define options for the G20 promotion of South-South cooperation. In particular China, by far the most important emerging partner to many developing countries, will fail to support any G20 efforts in respect of South-South cooperation and trilateral activities if the basic challenges outlined below will not be respected.

First, emerging partners cooperate *comprehensively* while involving private actors. Their development finance is often based on export credits – not grants – or acquisitions by their multinationals. As business is often operated on a barter basis, financial transparency is difficult to establish. With many emerging partners, aid is not separated from other instruments, such as trade and investment. The Chinese practice of packaged deals, for example, when the individual components cannot be isolated and computed with any precision, makes it difficult to separate aid from economic co-operation in general.

Second, new and old partners often act in the context of *zero-sum game situations*, as there will be pressures for a redistribution of the stock of global commons, particularly in relation to climate change and extraction rights for exhaustible resources. In such zero-sum settings, it is quite possible that emerging powers will continue to prefer bilateral agreements with resource-rich developing countries. For the G20, it is important to separate positive-sum (“win-win”) situations from zero-sum issues (Pisani-Ferry 2010). For sure, non-G8 members in the G20 face the same dilemmas of conflicting interests among themselves. But

the emerging partners seem to share common ground when it comes to global trade (Doha development agenda) and global money (the transition from a dollar based reserve currency system).

So which positive-sum topics can be ‘owned’ by the G20 here? I suggest to concentrate on facilitating South-South trade, trilateral infrastructure investment, and a redefined soft law for development cooperation, in line with the new OECD Global Development Perspectives 2010 (“Shifting Wealth”).

### **Facilitating South-South trade**

Between 1990 and 2008, world trade expanded four-fold; *South-South* trade multiplied by ten. South-South flows could be one of the main engines of growth over the coming decade, especially if the right policies are pursued. Simulations by the OECD Development Centre suggest that, were Southern countries to reduce their tariffs on Southern trade to the levels applied between Northern countries, they would secure a welfare gain of USD 59 billion. This is worth almost twice as much as a similar reduction in tariffs on their trade with the North.

The G20 should first concentrate on promoting South-South trade by removing constraints such as nuisance tariffs, non-tariff barriers (sanitary and phytosanitary) and technical barriers to trade requirements on goods to improve market access conditions for goods trade. All G20 members should grant duty-free and quota-free market access to LDC exports and simplified rules of origin. India, Brazil, and South Africa (IBSA) might bring their specific trade policy experiences into the G20 to exploit the benefits of intensified South-South trade.

The 2005 Hong Kong WTO Ministerial Declaration launched the Aid-for-Trade Initiative which was about mobilizing more and better aid for trade, to assist developing countries with becoming more engaged in international trade. Relevant international organizations, such as the OECD and the WTO, can work with the G20 to build momentum for action on Aid for Trade, including stronger assessment and enhanced monitoring. More specifically, joint OECD-WTO efforts can support the G20 with assessing relevant Aid-for-Trade flows, outcomes, impacts, and where improvements are needed.

### **Stimulating trilateral infrastructure investment**

A major feature of the structural realignment of the global economy is the switch of many emerging countries from a negative to a positive net international investment position, including the accumulation of foreign exchange reserves, sovereign wealth assets and growing credit claims, including on buyer export credits to developing countries. By promoting *South-South investment*, the G20 can untap potential for low-income countries. For maximum impact, this should involve private and public sectors. Investment by sovereign wealth funds and state-owned enterprises of developing countries is part of a broader increase of South-South investment that also includes emerging-country multinationals.

To ensure predictable and sustainable flows, trilateral cooperation could aim at tapping a small share of the official foreign exchange reserves that have been accumulated over the past decade by the non-G8 members of the G20. With huge reserves that extend beyond liquidity and insurance needs, there can be a significant expansion of lending by multilateral development banks, thanks to new equity provided by the emerging partners. The realization of this potential will require trilateral action to rebalance voting shares with international financial institutions accordingly in favour of the emerging donors, a process that needs the involvement of traditional donors, as their influence and voting shares would be diluted.

For low-income countries seeking less debt leverage and equity investors with long-term liabilities, investment by emerging-country sovereign wealth funds (SWF) might be preferred over development loans. With their focus on superior long-run returns and natural resources, sovereign emerging country investors may be more targeted towards the identified infrastructure needs of low-income countries. The 'Santiago Principles' that aim at ensuring SWF transparency have been a first example of new and old partners making common global soft law.

Stimulating South-South investment requires efficient political risk mitigation, as investors may be hurt by poor governance, political uncertainty or nationalization. There is room for the G20 to work on promoting availability and access (which includes enhancing the low-income countries' capacity to deal with project finance) to risk mitigation instruments.

No high-level political process exists to tackle the proliferation and complexity of bilateral treaties and other agreements with investment provisions and to make these agreements more conducive to promoting investment for development. This calls for launching a G20 initiative. Reflecting the change in net investment positions and the emergence of Southern MNEs, financiers and investors, the G20 could be tasked to identify conditions which would be necessary for establishing a multilateral investment framework.

### **Redefining best practices, standards and norms to integrate emerging partners**

The international system is still governed by a normative framework designed mainly by OECD countries, especially with regard to soft-law standards in the field of development cooperation. To be sure, the OECD Development Assistance Committee (DAC) has been successful with advancing standards of aid delivery, such as disconnecting aid from purchases in donor countries. However, the growing relevance of new development partners weakens its efficiency and raises the question of how compliance with these standards can be assured in a changing donor landscape. There have been doubts whether there are enough incentives for new development partners to provide aid within the confines of the established international aid architecture (Park 2010). Despite efforts to integrate emerging countries into the traditional approach of the DAC to monitoring compliance through peer reviews, the aid architecture of the future might turn out to be a synthesis of established and new approaches (Paulo / Reisen 2010).

The comprehensive approach pursued by emerging partners can have distinct advantages: capture by special interests and diversion into consumption, implementation bottlenecks and corruption are problems connected to the unbundled Western approach to resource extraction but not so much in South-South cooperation. Moreover, China's diaspora in Africa might be conducive to closer monitoring on the ground, and the costs of delivery are substantially lower; all the more as Chinese aid workers live at local standards (or below), also in rural areas. Collier (2008) argues that the proper way to generate transparency is not to resist the Chinese model of packaging but to embrace it, and thereby introduce competition, thus revealing value and thereby generating transparency as a by-product.

The G20 will need to redefine norms and best practices, rather than merely trying to absorb the emerging development partners into existing Western approaches. A specific first step toward better – not more – aid coordination would be the creation of a list of advantages and constraints of various traditional and new donors and a matrix of low-income country needs corresponding to these donor characteristics. For positive-sum game situations, such as statistical capacity building in low-income countries, this might give rise to trilateral activities that blend contributions of cash, manpower, and know-how by different donors for multiyear support in a recipient-driven development plan.

## **Bibliography**

- Collier, P.* (2008): Implications of changed international conditions for EITI, Oslo, Norway: EITI International Secretariat (Board Paper 6–8)
- OECD (Organisation for Economic Co-operation and Development)* (2010): Perspectives on global development 2010: shifting wealth, Paris
- Park, K.* (2010): New development partners and global development partnership, Washington, DC: Brookings Institution
- Paulo, S. / H. Reisen* (2010): Eastern donors and Western soft law: towards a DAC donor Peer Review of China and India?, in: *Development Policy Review* 28 (5), 535–552
- Pisani-Ferry, J.* (2010): China in the world economy: a European perspective, Brussels: Bruegel (Bruegel Policy Contribution 2010/03)

## Africa in the G20?

*Gilbert M. Khadiagala*

The G20 is steadily emerging as a new actor in steering global economic policies. Gone are the days when only a select group of mostly Western industrialized countries shaped the course and contours of the international economic agenda. The broadened membership of the G20, compared to the old G8, also signals renewed efforts to inject more voices into the search of effective solutions for new and old concerns. In the lead-up to the November 2010 summit in Seoul, Korea, however, Africa, for the most part, remains peripheral to G20 core interests and mandates. As a result, the perception that the African agenda is less salient to international economic debates has increasingly characterized popular and academic opinions. Since the G20 summit in London in April 2009, Africa has been represented by South Africa. This is a marked departure from the G8 summits where a large number of carefully selected African leaders received invitations to the halls of affluence and influence, from Gleneagles to Tokyo. As we approach the Seoul Summit, most of Africa is preoccupied with the problem of better representation, adequate to its population of 1 billion people and geographical diversity. Reminiscent of the discourse of the early 1990s, many Africans are decrying the continent's marginalization from the construction of a new global economic architecture.

### **Responses to African needs are lacking**

I want to suggest here that the polarizing debates about African representation and participation at G20 summits obscure the more pertinent and profound questions about the relevance of global summitry to Africa's real needs. If we are to go by the previous record of the G8 process, African issues have barely attracted meaningful attention at these summits, only finding passing mention in final communiqués as afterthoughts and footnotes. Similarly, as in the G8 summits, the selective invitation of African countries has mostly served to assuage the moral conscience of proponents of African input in international decision-making. The reality, in fact, is that G8 invitations of African countries dramatized the phenomenon of participation without voice. In addition, rather than highlighting African concerns, selective invitations invariably fragmented African approaches on core international debates. Western countries probably invited African leaders with the best of intention, but these actions ignited unhelpful turf wars on "authentic" African leadership and voices. Nigeria, for instance, has complained loudly about being left out of the G20 summits after many years of active presence at the G8 summits (Campbell 2010).



### **More African voices at the G20?**

Should there be more African voices at the G20? I am not convinced of the logic of this argument. This is because the factors that drove the expansion of the G8 into the G20 stemmed from the unique circumstance of the financial economic crisis of 2008, which was largely a problem manufactured in Western industrialized economies. China, India, and other emerging powers found invitation at the global table once Western countries decided that they could make a vital contribution to reversing the meltdown. Western countries that had for long resisted an inclusive coalition on collective global action now became instant converts to proactive multilateralism (Heine 2010, 1–11; Cooper / Subacchi 2010, 609–11). Although African countries suffered from the consequences of the financial crisis, their relative isolation from the global economy helped dampen the negative fallout from the recession on their economies. It is, however, unlikely that an expanded African presence in the new structures would have made that much of a difference primarily because Africa's claims and grievances on the international economic community have remained largely constant – debt relief, trade concessions, development assistance – issues that paled in significance to the urgent priorities that gave impetus to the G20.

Does the establishment of a Working Group on Development and the enlargement of the mandate of the G20 to encompass international public goods provision demand African participation? Not really. Although South Korea has pushed for the debate on reducing global development gaps at the November 2010 summit, there is scepticism about how this objective can be achieved. No wonder, some of the G20 members have been uncomfortable with the idea. Fundamentally, some in Africa view the G20 as part of the perennial proliferation of international instruments and institutions that are long on promises and short on delivery. Although these summits have become the place to mobilize action around pressing issues such as the financial meltdown, climate change, and development financing, they raise inordinate expectations that are hardly fulfilled. For instance, not long ago, the United Nations created a United Nations Peace-Building Commission that duplicates most of the roles and responsibilities of existing institutions to the detriment of international coordination. This institutional proliferation invariably undermines the work of long-established bodies and deepens the legitimacy and credibility crises of the international community in Africa. Africa will benefit from strengthening institutions such as the United Nations Development Programme (UNDP) and initiatives such as the Millennium Development Goals (MDGs) rather than token representation at new global conclaves. Over the years, there has been a steady accumulation of knowledge and consensus about what needs to be done about development in Africa and elsewhere. A new group on development at the G20 is unlikely to break fresh analytical and policy ground on the wide array of international issues - trade, aid, climate change, corruption and others. What is frequently missing in debates about development is authoritative and effective leadership to galvanize action and programmes on overcoming these challenges. The G8 has, for the most part, furnished leadership on some of these issues, but the rise of the G20 signals seismic changes that have not found solid institutional anchorage and leadership. The jury is still out on whether the G20 is a cohesive, coherent,

and effective institution to meet the ongoing and future challenges of global governance (Cooper 2010, 741–57; Payne 2010, 720–40). At worst, the G20 may be a temporary institution that manages the transitional pains from the old to the, as yet, not clearly delineated new global order. Africa has a stake in the evolving order, but it is probably premature for it to scramble for a seat at the uncertain banquet.

### **How to represent Africa?**

Where are African voices most effective? Past experience reveals that Africa has enhanced its position in international affairs when it works collaboratively with wide coalitions of Southern states to pursue agendas that are not uniquely African. Problems that animated previous Southern alliances such as the Non-Alignment Movement (NAM) have declined in salience, but there is a continual rebirth of Southern coalitions around novel issues such as climate change, trade negotiations, development financing, and equitable and sustainable development. New multilateral initiatives such as the High Level Forums on Aid Effectiveness are critical to propel multilateral action and thus reduce the necessity for Africa's participation in the G20. In addition, Africa is already working effectively with Southern actors and the burgeoning international civil society movements to address some of the deficits in global governance. This is where African voices need to be represented more effectively.

Alongside the host nation, South Korea, South Africa is slated to spearhead the development agenda. More substantively, South Africa will play a role in the Financial Stability Board (FSB), an initiative to evolve new rules on the regulation of financial services. This latter role is an important contribution to international institution-building and reflects the sophistication of the South African economy. South Africa, however, exaggerates its role in these summits when it purports to “represent” Africa, an unrealistic and foolhardy enterprise. Like its colleagues at the G20, South Africa should not promise what it cannot deliver.

### **Bibliography**

- Campbell, C.* (2010): Better representation for Africa sought, in: *The Globe and Mail* 25 June 2010, 3–5
- Cooper, A. F. / P. Subacchi* (2010): Overview, in: *International Affairs* 86 (3), 607–17
- Cooper, A. F.* (2010): The G20 as an improvised crisis committee and/or a contested ‘steering committee’ for the world, in: *International Affairs* 86 (3), 741–57
- Heine, J.* (2010): Will they have table manners? The G20: emerging powers, and global responsibility, in: *South African Journal of International Affairs* 17 (1), 1–13
- Payne, A.* (2010): How many Gs are there in ‘global governance after the crisis? The perspectives of the ‘marginal majority’ of the world’s states, in: *International Affairs* 86 (3), 729–40

## Africa and poor countries must be central to the G20's Seoul development agenda

*Garth le Pere*

The complex landscape of the global development agenda will offer the G20 an important opportunity to reflect on its own *raison d'être*, mandate, and objectives. To date its four successive summits in Washington (November 2008), London (April 2009), Pittsburgh (September 2009), and Toronto (June 2010) have failed to provide any clear indication about the role which the G20 intends to play in shaping the normative frontiers and influencing the delivery imperatives in the fluid, elastic, and highly contested global governance of development. If anything, the G20 appears to be wrestling rather ambivalently with this critical interface especially since it will have direct and profound implications for its legitimacy and credibility, coherence and relevance.

To its credit the G20 did concentrate its collective mind at the London meeting with major pronouncements regarding reorganising the global financial system in the wake of the centrifugal effects of the economic downturn. Its leaders agreed to reform international financial institutions to better manage and prevent future crises, and to vigorously promote global economic recovery. For this purpose, agreement was reached to treble money available to the IMF, up to USD750 billion; an additional USD100 billion was promised to regional development banks to support the poorest countries; and USD250 billion was earmarked for supporting trade financing. It was anticipated that the full effects of these measures would unleash an additional USD1,1 trillion into the global economy and help correct structural disequilibria and distortions in trade and commerce. By expanding domestic job creation, it was expected that by the end of 2010, millions more jobs would be created and global economic output would be expanded by 4 per cent.

Surprisingly however, absent in these commitments and calculations was a clear articulation of an associated developmental roadmap that went beyond platitudinous and rhetorical recognition of earlier pledges to the MDGs, ODA, debt relief, and the outcomes of the G8 Gleneagles Summit. Indeed, Sub-Saharan Africa received the equivalent of a single 'honourable mention' in the London agreement much to the chagrin of South Africa as the only Africa representative in the G20. Not surprisingly, President Zuma has expressed resolve that South Africa will ensure that Africa is not neglected at Seoul. Indeed, London set a worrying precedent since there seemed to be no real appreciation of the magnitude and scale of Africa's challenges: endemic poverty, declining levels of aid, growing environmental degradation, the scourge of communicable diseases, increasing food and energy insecurity, collapse of global commodity prices, restricted market access and so on.

### **Providing a development impulse**

Labelled as ‘Development Summits’ at Okinawa in 2000 and Genoa in 2001, the G8 used these as platforms to send clear signals that it took the global development agenda very seriously, and in this Africa assumed an almost iconic status and became the grand metaphor of the disparities that existed between rich and poor countries as well as all the ills of globalisation’s disempowering effects. The catalysts for a closer engagement with the G8 were Presidents Mbeki, Obasanjo, and Bouteflika of South Africa, Nigeria, and Algeria, respectively. Their participation at G8 summits starting at Okinawa heralded the ‘institutionalisation of African concerns’ such that they were able to extract commitments from G8 leaders that culminated in the 2002 Kananaskis Africa Action Plan which defined eight key commitments: promoting peace and security; strengthening institutions and governance; fostering trade, investment, economic growth, and sustainable development; implementing debt relief; expanding knowledge, improving and promoting education; improving health and combating HIV/Aids; increasing agricultural productivity; providing finance to mitigate the effects of climate change; and improving water resource management. With the Action Plan providing the momentum, the G8 launched an Africa Partnership Forum at its Evian summit in 2003 to enhance high-level dialogue to support the New Partnership for Africa’s Development (NEPAD) but also to assist African countries to meet the MDG targets by bringing in other multilateral stakeholders and institutions. On balance, and rather than its delivery deficits, part of the G8’s legacy will be defined by how it has brought greater clarity to how the West could engage Africa in a more strategic, coordinated, and consultative manner.

While the G20’s star has certainly risen as the primary steering mechanism for global economic governance, especially in the wake of the global financial crisis, that of the G8 has been waning such that by its Heiligendamm summit in 2007 measurable progress on Africa was rather desultory and disappointing. The institutional, political and management paralysis in NEPAD, the embryonic nature of the African Union, and the fact that Presidents Mbeki and Obasanjo had left the political stage did not help matters either. After the Pittsburgh meeting and following agreement (supported by the US) that economic cooperation in future will be coordinated primarily by the G20 as it takes on a more prominent role in global governance, a new door in development cooperation could also be opened. This crucially depends on the extent to which the G20 will define its future role and identity with regard to development issues, and how it will frame its thematic focus in relation to the complex raft of challenges that confront developing countries. In this regard, there is compelling reason for it to bring together the intersections of its London agreement with the G8’s Africa focus that crucially builds on the Africa Partnership Forum.

### **Defining the G20 development agenda**

The G20 must learn from the G8’s experiences that too large an agenda of issues leads to a ‘pledge paradox’: the more commitments are made, the less is implemented. For example, the ambition of the Kananaskis commitments was ultimately sacrificed on the altar of expe-

diency. This Plan still represents a useful guide to the range of development activities that are consequential for Africa's growth and development but what is now required is a strategic compass that can guide action on deliverables and this is where the G20 can certainly make a difference as an informal mechanism for '*complementary multilateralism*'. This complementary and supportive role must be structured around the integration of important elements of the current development architecture into the G20 focus: the MDGs, the Monterrey Consensus (financing for development), the Doha Declaration (development through trade), the Paris Declaration and Accra Agenda for Action (making aid more effective), and various debt relief initiatives. In this regard the G20 should take the lead in becoming the global 'norm entrepreneur' in unlocking resources for development cooperation and aid, especially by crowding in the new non-DAC donors and setting standards and good practices for a results-driven process. These considerations take on added relevance since South Korea has indicated that 'development' will form a separate strategic discussion, based on President Myung-bak Lee's articulation of relevant priorities at Davos earlier this year.

The G20 straddles the North-South divide and its diversity and representativeness gives it a certain moral authority and mandate that the G8 lacked. The critical existential question for its future turns on its legitimacy and effectiveness as an informal forum. This does not preclude developing synergies and common interests between the G8 and G20, precisely because in many ways the latter grew organically out of and is an extension of the former. Now that a de facto division of labour has been established, there is greater promise and opportunity for the diffuse and often anarchic policy universe of global governance to be better managed and coordinated on the basis of the complementary multilateral imperative for the G20 to support functional organisations and even to become *the* major global actor in their reform, especially the Bretton Woods Institutions and the UN. (The June summit in Toronto was attended by nine international organisations.) Rather than the source of global discontent as was often the case with the G8, the G20 should also be more participatory by extending partnership opportunities to NGOs as epistemic and activist communities.

Today's global order is at once integrative but also profoundly exclusive and sectarian. Major systemic vectors such as trade, investment, technology, information, and cross-border production systems bring economies and people closer together but also marginalise and exclude a great proportion of the world's countries and people, especially those in Africa. The shift in power from West to East and growing interdependence engenders both threats of despair and underdevelopment and opportunities for growth and shared prosperity. How these are managed and if the net of opportunity is to be expanded will require intelligent adaptation and innovation. Could the G20 become the steward of a new global governance of development at Seoul or will it be simply be the custodian of a dispirited and atavistic status quo?



## How to help rather than hinder: The G20 in global development

*Gregory Chin*

The inclusion of development issues in the agenda for the G20 Summit in Seoul in November 2010 apparently marks a “new stage” in the evolution of the G20. One could see how this move could offer *representational legitimacy* to the G20 and bring increased profile to global equity concerns. Seeing that Korea has put development “firmly” on the G20 agenda for the upcoming summit, many have jumped aboard the big push to shift the G20 onto development – irrespective of the impact on the *performance legitimacy* of the G20. After all, it is still unknown whether the G20 can, in practice, effectively deliver on development. Is it the correct strategy to expand the agenda of the G20, adding global steering on development to its agenda? Does the G20’s involvement help or hinder broader global efforts to tackle the wide-ranging challenges of development?

### **A new ‘brand’ of development**

In a G20 Policy Report of the Brookings Institution, Homi Kharas (2010) suggests that the G20 does have a role to play in international development. He compares an outdated G7/8 approach to development, which has focused on ‘pro-poor growth’ and ‘saving helpless Africa’, to a more ‘comprehensive’ view that the G20 *can* and *should* promote. In essence, the argument is that the G20 can take the lead on pushing for a paradigm shift in “development” to one that focuses on growth, employment, investment and private sector development, and that speaks to the growth and developmental needs of a more diverse group of emerging and developing economies. Kharas urges the G20 to spell out an “actionable agenda”; show how it can be delivered in a “meaningful way”; and to outline the agenda in Korea in November (2010, 11–12). The new G20 “brand” of development would also emphasize avoiding and mitigating economic crises. The agenda for Korea should, as such, reinforce global commitments to stable financial flows, including via strengthening social safety nets.

The role of the G20 in global development in the above view would be expansive, providing broad leadership and policy direction on “*ensuring that global rules of the game do not have unintended adverse impacts on developing countries.*” (Kharas 2010, 12) The G20 would offer support on issues ranging from infrastructure funding through the IFIs, and addressing the waste involved in fossil fuel subsidies, to making sure that new global financial regulations do not blunt innovations in mobile phone banking in developing countries, or the access of small and medium firms to finance.

The view from Brookings is supported by the Managing Director of the World Bank. Ngozi N. Okonjo-Iweala (2010) argues that the developmental concerns of the G160+ should be of central concern to the G20: “*The developing world has the potential and the people. They can help in the building of a world of jobs, not joblessness; hope, not hopelessness. The G20 must recognize this and give development a central place in its agenda.*” For Okonjo-Iweala,

the G20's role on development would be about ensuring "win-win" gains by supporting the financing needs of developing countries in infrastructure, education and vocational and technical employment skills training.

The Bank's Managing Director sees the G20 supporting new modes of front loading and delivering development finance for infrastructure, experimentation on development bonds, diaspora bonds or other forms of securitizing assets that can help deliver the large resources needed for infrastructure and social services, and taking on an anti-corruption agenda to ensure the *"repatriation of public monies back to low-income countries that were corruptly stolen and sitting in the financial centres of developed countries and emerging markets."* The argument here is clearly also for an expansive role for the G20 in global development, without any mention of limits.

Those arguing for the G20 to take an expanded role on international development are not, however, woolly optimists. Kharas, for example, acknowledges that it is not so easy for the G20 to take on such an expanded role because "development" has traditionally been a topic for the G8, and the latter seem reluctant to give up this role (2010, 10). And the members of the G7/G8 have proven the prediction correct. Members of the old Club, including recent G8 host countries, have continually questioned whether the lack of "like-mindedness" among 'the 20' prohibits the G20 from actually playing the kind of global leadership on international development which the G8 has purportedly offered the world heretofore. They raise doubt on whether any 'serious agreement' on policy directions or burden sharing can be struck between the traditional donor countries and the rising/emerging donor states, i.e. with China especially, but also Brazil and India.

Korea has tried, admirably, to overcome the subtle resistance to the G20 playing a greater role on development by reaching out to the old order, and adapting where possible via institutional adaptation and offering new proposals, such as the global social safety nets idea. The Koreans have not shied away from trying to establish the G20 as a focal point for global leadership on international development, especially in the wake of the Toronto Summit (June 2010).

### **Should the G20 lead?**

The preceding analyses mainly deal with whether the G20 *can* become the global steering committee on international development. Not to be overlooked, however, is whether it *should* be. On the latter, there has been less international debate. Why should the G20 be made the focal point for global leadership on international development? Especially when an important new constituency, the rising states (Brazil, India, China) have all called for the UN to be the key international body for striking new consensus on priority and agenda-setting on globally-coordinated international development goals? One could easily envision how an enhanced role for the G20 in international development, if not carefully coordinated with the UN-led initiatives, would cause unnecessary duplication or even confusion on global efforts. While complementary relations could be helpful, if history is any guide,



an equally plausible scenario could be duelling mission-creep and overlapping institutional efforts. The latter would hinder rather than help the resolution of global development challenges. A situation of competing global visions would likely result in the waste of already scarce resources for international development.

Some suggest that the G20 offers efficiency gains in consensus-building and even decision-making on intractable systemic-level challenges that require global leadership. However, does the G20's fit for global finance also simply apply to international development? The South may begrudgingly accept less voice on the re-regulation of global finance, when they consider the location of the major financial centres of the world, and the national identities of the world's largest financial institutions. Even then, they want to know that their interests as customers are taken into account, and therefore the creation of the new C10 for Africa. International development presents a different matrix of players than international finance, and stronger demands for voice from the South. When it comes to development, there is no side-stepping the thorny issue of the G20's representational legitimacy. This makes for serious inherent limits on the capacity of the G20 to be *the* forum for brokering new consensus on the development agenda. There is no replacement for the UN, despite its limitations.

### **A focused, supportive role**

Rather than overloading the G20 on international development, another approach is to suggest a more limited role for the G20, while recommitting to strengthening the overall leadership and global coordination capacities of the UN on the development agenda. The UN's related "High Level Panels" hold more potential for innovative global leadership than perhaps realized to date – especially for ensuring oversight of the implementation of high-level decisions via the UN's specialized agencies. One such example could be the UN High Level Panel on Sustainable Growth.

The rising powers have consistently recommended that the G20 should stay focused on managing the global economic recovery and putting in place new regulatory measures to help mitigate the impact of future financial crises. Elsewhere (Chin 2010), I have suggested that it may not be prudent to put so much emphasis on the G20 process; that some are expecting too much of 'Gs' summitry. That it may be more useful – especially if we are heading toward a more multipolar international order – to put more attention into rethinking the division of organizational labour between the major institutions and levels of international governance in the global system (bilateral, regional and global), and design new coordination mechanisms.

It would be useful to think seriously about the limits of the G20's intervention on international development. The idea here, a view that is shared by Rajiv Kumar (2010) (until recently the director of the Indian think tank ICRIER (Indian Council for Research on International Economic) and recently appointed to a senior post in the Indian government), is that the G20 should focus on select development issues that are critical constraints to achieving rapid, equitable and sustainable growth in developing economies. Otherwise by spreading itself too thinly, the G20 faces the risk of becoming yet another layer in the hierarchy of international institutions that are overseeing global efforts in coordinating development.

The policy suggestion here is a two-stage recommendation. That it may be useful to include development issues on the G20 agenda. However, there is a precondition – that this would be done with greatest effectiveness after the performance efficacy and future existence of the G20 as a “Leaders’ Grouping” has been assured. This may not be as certain as many want to believe. The refrain coming out of the Toronto G20 is not totally positive regarding the future relevancy of the G20.

Because the rising states are supporting the G20 as the ‘premier economic forum’, its continuation as a “Leaders” grouping should be safe at least for the immediate future. However, the UN should remain the focal point of consensus building on priority- and agenda-setting, for global coordination of development policy and programs on a global scale, especially in areas of social development, food and climate change. The G20 should, at most, supplement the UN in these issue-areas, and focus instead on managing the world economy. The G20 will already be making a major contribution to sustained global economic development if it can get its work done well on financial and economic crisis management.

The G20 should therefore deal with international development in a very focused way, with a few targeted policy interventions to test the waters. Even if just to test its real capacities. For example, the G20 could become a useful leaders’ platform for the traditional and rising donors to pledge to work in a more coordinated fashion in future UN-led initiatives, to strengthen the overall effectiveness of the assistance contributions.

The approach to intervening on international development that is advised here for the G20 is one where intended results and unintended consequences can be carefully tracked, monitored and evaluated. This would be a post-crisis management strategy that would ensure that the G20 is not only aiding its own legitimacy, but more importantly helping the cause of global development. Rather than being an unfocused hindrance, in the interregnum between the birth of the new order and the passing of the old.

## Bibliography

- Chin, G. (2010): Shaping the post-crisis order without a silver bullet, in: *Global Perspectives* (North America Edition), August, 16–17
- Kharas, H. (2010): Passing the development football from the G8 to the G20, in: P. Blustein et al., *Recovery or relapse? The role of the G20 in the global economy*, Washington, DC: Brookings Institution, 10–13
- Kumar, R. (2010): A development agenda for the G20: an indian perspective, New Delhi: Indian Council for Research on International Economic Relations (ICRIER); online: <http://icrier.org/page.asp?MenuID=761&SubCatId=765> (accessed 7 Sept. 2010)
- Okonjo-Iweala, N. N. (2010): Why the G20 should be interested in the G160+: speech at the World Bank-Korea Conference on Post-Crisis Growth and Development, 3–4 June 2010, Busan, Korea; online: <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22602898~pagePK:34370~piPK:42770~theSitePK:4607,00.html> (accessed 10 Sept. 2010)

## Can Korea be a bridge between developing and developed countries in the G20 and beyond?

*Thomas Kalinowski*

The South Korean government as the current chair of the G20 has chosen development as one of the key items on the agenda of the G20 summit in Seoul on 11 and 12 November 2010. The Korean government tries to extend the agenda of the G20 beyond the initial focus on crisis recovery and financial reform. Korea wants to establish the G20 as a credible replacement for the G8 as a forum for global economic cooperation. Within the G20, the Korean government promised to be a bridge between developed and developing countries and to pursue inclusive leadership that reaches out to developing countries outside the G20. Let us have a critical look at Korea's record and plans to make this development promising, and let us evaluate Korea's potential to provide alternatives to a development discourse in the G20 that is still dominated by the North.

### **Korean ODA and concept of development**

It is important to acknowledge the decisiveness and speed with which Korea has established itself as a newcomer in the field of development cooperation. Korea has substantially increased its net official development assistance (ODA) expenditure from USD279 million in 2002 to USD816 million in 2009, and in that same year Korea became a member of the Development Assistance Committee (DAC) of the Organisation for Economic Co-Operation and Development (OECD). Even though Korea's ODA accounts for only about 0.1% of its gross national income and remains well below the OECD average, the massive expansion in a short period of time is impressive, particularly if we consider the difficulties of building a development aid infrastructure that can deliver high-quality aid. Yet, Korean ODA is still suffering from a relatively low quality of aid and in many respect repeats the shortcomings of Western ODA in the past (and present), such as low levels of multilateral ODA versus bilateral ODA, high levels of tied aid versus untied aid, high level of project financing versus budget support, high level of credits versus grants as well as mixing ODA with export promotion and a lack of civil society consultation.

If we study the Development Issue Paper of the Korean Presidential Committee for the G20 Summit (hereafter "the paper") in Seoul in November 2010 (June 17, 2010), we will find some important contributions, but also many vague commitments and a problematic concept of development. Altogether, the paper gives little indication of a credible alternative to the development discourse mostly dominated by the North. The paper begins with a hopeful introduction that outlines the development challenges as well as the urgent need for action to reduce poverty and vows "inclusive leadership" of the G20 encompassing non-member countries. However, it lacks concrete steps and strategies of how to institutionalize such inclusive leadership and how to avoid weakening the more inclusive United Nations

(UN) system in development matters. The second section of the paper reveals quite a problematic, narrow concept of development by announcing the “Seoul Summit’s Approach to Development: Partnership Focused on Economic Growth”. While the paper acknowledges that development and poverty reduction require more than growth, it sets clear priorities on economic growth and, thus, perpetuates a largely failed and increasingly challenged strategy of the past. All other aspects of the paper are clearly subordinated to growth. The report also remains silent on environmental constraints that limit the ability to replicate growth-centered development models in the West and in East Asia, including Korea.

### **Korean initiative for a global financial safety net**

When it comes to Korean contributions to bridge the gap between developing countries and the developed world, two Korean proposals are frequently mentioned, the initiative to establish a global financial safety net and the significance of the Korean development model for capacity building in the developing world. Firstly, Korea proposed an initiative to establish a global financial safety net with easier access to the International Monetary Fund’s (IMF) money at its core. This is not a new idea, but Korea could emerge as an important and reliable partner of the developing world in this field. The global financial and economic crisis has shown that Korea, despite its costly accumulation of currency reserves, remains vulnerable to the volatility of global financial markets, just like the majority of developing countries and emerging markets. Establishing a global financial safety net would, thus, be important for Korea and the developing world alike. However, the first concrete outcome of this initiative, the IMF’s new “Precautionary Credit Line”, remains somewhat disappointing. It provides easier and faster access to funds with “streamlined conditionality”, but only for countries with “sound economic policies”. This leaves a lot of discretion and power to the IMF, and while Korea would surely qualify it is doubtful if many poor countries would. Unfortunately, other measures or initiatives to construct a more development friendly global financial architecture are less popular in Korea. For example, Korea rejected the introduction of a Financial Transaction Tax (FTT) promoted by France and Germany. The FTT is a promising instrument that would help to reduce speculative capital flows, create a more stable global financial environment for development and could potentially generate tens of billions of dollars for development projects like the UN Millennium Development Goals.

### **Korea as a “model” for the developing world?**

Secondly, Korea is proposing a shift from development cooperation based on aid to development cooperation based on capacity building. Here Korea could play its trump card and offer lessons from its own successful development strategy. In fact, the main rationale put forward by Korea for being a credible bridge between developing and developed countries is Korea’s own successful development within living memory. Koreans see the G20 summit as an opportunity to share their success story and present Korea as a model for developing

countries. To institutionalize learning from successful development strategies, the Presidential Commission wants to establish the G20 as a “Platform for Knowledge Sharing” with developing countries and thinks about the formation of a “G20 Development Experts Group” that would include experts from regional development banks. Unfortunately, the Korean government missed the opportunity of the upcoming G20 summit to create some concrete results. While it helps organizing a giant “G20 business summit” with 100 Chief Executive Officers (CEOs) from some of the largest global companies, it has failed to start a similar ambitious initiative to organize a G20 development summit.

There is no doubt that scholars, civil society groups and government officials from developing countries can learn a lot from Korea’s development successes but also from the failures and costs of rapid industrialization. However, it is important that experts from developing countries study Korean development from their own perspective and not rely on a selective and biased interpretation presented to them by the Korean government. The latter understandably stresses those aspects of the Korean development model that are in line with the interests of the powerful Korean export industry and Korean multinationals. It is, thus, not surprising that the Korean government and mainstream scholars highlight the importance of trade for development, financial opening particularly for foreign direct investment (FDI), intellectual property rights, private sector initiative and public private partnership. On the other hand, valuable lessons from the Korean development experience that contradict the Korean interest are often omitted. No word about the skillful protectionism that helped Korea to nurture a sophisticated and interwoven domestic industrial structure. No mentioning of the tight control of FDI in Korea that forced foreign multinationals into joint ventures with Korean companies instead of giving them a free pass. No regrets (and correctly so) for putting patent rights on the backseat in order to get access to advanced technology.

In short, the Korea of today, the world’s seventh largest exporter, ranking 26th on the UNDP Human Development Index (HDI) ranking and home of some huge multinationals, has interests which in many respects are very much different from those of the developing world. Instead of keeping foreign products and competition out or force foreign investors into joint ventures, it is now interested in promoting export, foreign investments and intellectual property rights of their own multinationals. Unfortunately, Korean companies are active in even some of the most problematic foreign investment activities like Daewoo’s attempt to lease about half of Madagascar’s arable land, a deal that brought down the Madagascan government and was ultimately canceled.

### **Korea has to prove its solidarity with the developing world through concrete actions**

Korea has made some important proposals to bring development issues on the agenda of the G20, but for Korea to become a credible broker between the developed and the developing world it has to find ways to institutionalize the inclusion of developing countries and avoid sidelining already more inclusive institutions like the UN. Korea’s successful development and its increasing engagement in ODA alone make Korea neither eligible nor credible

enough to represent the interests of developing countries in the G20. Instead, Korea (like all other countries) has to prove its solidarity through concrete actions and not just by announcing well meant initiatives. Most importantly, Korea has to engage in a kind of development cooperation that listens to the problems and needs of developing countries. For example, the Korean government should be even more active in supporting experts and stakeholders from developing countries to understand Korea's successful development from their own perspective. Why not cancel the G20 business summit and instead organize a G20 development summit that brings together scholars, government officials and civil society groups from the developing world, the developed countries and Korea?



## G20 summit meeting: The development agenda and what is missing

*Eun Mee Kim*

It is truly remarkable for a war-torn country with a GNP per capita of USD81 in 1961 to have become the 14th largest economy in the world, and the host of the G20 summit meeting (Kim 1997; World Bank 2010). It is in this spirit of hope for development for other countries and perseverance amidst adversity that the Republic of Korea decided to champion the cause of development at the G20 summit meeting to be held in Seoul in November 2010.

It is a welcome sign that the G20 is willing to go beyond being immediate relief and prevention of global financial and economic crises. The two new agendas that will be introduced at the G20 Seoul Summit Meeting are the Global Financial Safety Nets and the development agenda. Let me focus on the latter by highlighting what is there, but more importantly on what is missing.

### **What is included in the development agenda?**

The development agenda has been adopted due to the recognition that poverty has exacerbated in developing countries since the global financial crisis, that global growth can be attained only if deep inequalities between nations are addressed, and that reduction of poverty and narrowing the development gap are essential to establish “*strong, sustainable and balanced growth*” (The Presidential Committee for the G20 Summit, Republic of Korea [hereafter, PCG20] 2010). The first High-Level Development Working Group met in Seoul in July 19–20, 2010 and discussed among other things a common set of “G20 Development Principles” that will “*guide the selection and elaboration of deliverable action items*” (Kwon 2010, 14).

The following eight areas have been selected as key pillars, in which G20 members have expressed collective interest: (1) infrastructure; (2) private investment and job creation; (3) human resource development; (4) trade; (5) financial inclusion; (6) growth with resilience and food security; (7) governance [tax]; and (8) knowledge sharing (PCG20, 2010). These pillars are important to the development agenda since they will be used as determining factors for deciding and selecting deliverable action items.

According to the PCG20, the G20 must have a sharp economic focus on its mandate in global governance so to avoid duplication of other efforts around the world including those of the UN, OECD, and WTO among others. Thus, the G20 Development Principles have been identified to (1) focus on economic growth; (2) complement existing efforts; (3) be outcome-oriented; (4) work on global/regional issues to be dealt with collectively; (4) engage low income countries for mutually accountable partnership; and (5) promote private sector involvement (Kwon 2010, 16).



## What is missing in the development agenda?

### 1. Human face is missing – in particular, women are missing.

Although the G20 is a global governance mechanism which attempts to focus on issues at the global and regional level, it has the shortcoming that there appears to be a gap of understanding at the human level. There are groups of particularly vulnerable people, whose lives have been exacerbated since the crisis. In particular, women and children in many developing countries have been affected to a greater degree. *The Millennium Development Goals Report 2009* (UN) voiced great concern that internally displaced persons were on the rise due to the economic crisis, rising food prices, and persisting poverty. The Internal Displacement Monitoring Centre (2009) noted with alarm that over 27 million people were internally displaced, and that many of them were women and children. Women, who are the sole heads of household, were exposed not just to poverty, lack of employment, but also to sexual abuse. Thus, women have once again become the greatest human victims in the crisis. It is regrettable that not enough attention is provided at the human level, in order that such pockets of vulnerability can be protected and singled out for greater support.

There appears to be a notion that such “women’s issues” are not part of economic issues that the G20 should address. Women’s issues are considered as “social issues,” for which there are other global governance mechanisms better suited for their solution.

However, the concern is not just social, but economic, when we examine the current state of women in the developing world. Even if the G20 wishes to retain its focus on economic issues, women’s disproportionately dire economic situation since the crisis needs to be addressed. Thus, the “inequality” and “discrepancy” should be measured not just between nations, but at the “intra-national level” and especially between genders. It is important for the G20 to address the problems faced by the most vulnerable in order to have legitimacy as a premier economic forum to help alleviate the problems due to the economic crisis.

Furthermore, engaging women into the G20 framework would provide an effective way out of the ill-effects of the crisis, and prevent the devastating effects of future crises. As Muhammad Yunus, the 2006 Nobel Peace Prize laureate, noted in his many speeches as to why the Grameen Bank’s predominant clients are women, women are not just the victims, but also the most effective agents to bring about changes into a poverty-stricken household and community. Thus, it is vital that the G20 *engage* women to find ways to prevent women from falling by the way-side, with another crisis, no doubt destined to happen again.

## 2. Social development is missing.

Economic infrastructure appears to take centre stage on the development agenda (PCG20 2010). Focus on economic infrastructure came due to the neglect in such projects of official development assistance (ODA) from advanced industrialized countries for various reasons. Also non-traditional and emerging donors such as China and South Korea have been eager to engage in economic infrastructure projects to help alleviate poverty in developing countries.

Trade and private sector involvement were also mentioned as key pillars in the development agenda, since the emphasis has been on economic issues. All these issues are relevant and important for this agenda.

However, what are missing are the social development issues and projects. There appears to be an implicit tension with the Millennium Development Goals (MDGs), where the emphasis has been on social development. The MDGs, which were signed by 189 world leaders at the UN Millennium Summit in 2000, reflected a more comprehensive understanding about the causes of poverty and its resolution. The MDGs provided a more comprehensive package on addressing poverty including health, illness, hunger, gender equality, education, and environmental sustainability. This is because decades of ODA to many developing countries did not always bring successful reduction or eradication of poverty since the understanding of poverty was limited to “lack of income or jobs” (economic understanding), while the face of poverty was in fact multifaceted including wars, civil wars, epidemics and lack of democracy. For example, if a country is embroiled in a civil war, it is impossible to alleviate poverty without dealing with the security issue; and a sick mother cannot engage in any economic activity or care for her child. Thus, the MDGs reflected a commitment to deal with poverty from not just an economic perspective, but in a more comprehensive manner.

Although it is understandable that the G20 needs to differentiate itself from other global governance forums, it is rather short-sighted if it sees poverty and development through a narrowly defined economic lens. Past history tells us that economic growth projects without social awareness and sensitivity often do not result in poverty reduction and economic development. Furthermore, there is some suspicion that these infrastructure projects may result in helping the richer donor nations and their businesses more than the partner nations.

Similarly, there is concern that the emphasis on trade and private sector involvement could also result in favouring the more advanced industrialized countries and their businesses at the expense of developing countries in need.

In summation, the argument is not that the G20 should wholly embrace social development issues and intra-national inequality. Rather, the argument is that the G20, in order to fulfil its promise to deal with the economic crisis, needs to have a stronger awareness about the pockets of vulnerable groups in the world at the intra-national level, and be more inclusive of social dimensions of poverty. An effective way to do this is for the G20 to show a clear and strong commitment toward the MDGs and pro-poor growth when it is pursuing the development agenda.

**Bibliography**

- Internal Displacement Monitoring Centre* (2009): Internal displacement – global overview of trends and developments in 2009, 17 May 2010; online: <http://www.unhcr.org/refworld/docid/4bf150a22.html> (accessed 9 Sept. 2010)
- Kim, E. M.* (1997): Big business, strong state: collusion and conflict in South Korean development, 1960–1990, Albany, NY: State University of New York Press
- Kwon, H.* (2010): The G20 development agenda: the road to the Seoul Summit and beyond: the 9th Korea-France Forum (September 6, 2010), Seoul, Korea: Korea Foundation (presentation material)
- PCG20 (The Presidential Committee for the G20 Summit, Republic of Korea)* (2010): The G20 Seoul Summit, Seoul, Korea, mimeo
- UN (United Nations)* (2009): The Millennium Development Goals Report 2009, New York
- World Bank* (2010): World Development Report 2010, Washington, DC

## G20 and development: A view from Pakistan

*Khalida Ghaus*

The focus of G20 meetings and consultations lies largely in matters pertaining to the international financial system. Though created in the aftermath of the financial crisis of the late 1990s, the group expanded its area of focus by concluding agreements on the abuse of the financial system and on combating money laundering and financing of terrorism. In fact, it does not have a formal charter guiding its activities. Another key issue is the perceived “undemocratic” nature of the G20. The members of the forum are selected arbitrarily and although summit declarations are shared with the media and public, the discussion itself is not public. This adds to the view that the foremost priority of the forum is to safeguard the rights and interests of major economies as opposed to making decisions that seek to bridge the North-South divide. The forum, therefore, is geared more towards strengthening the international financial architecture as opposed to the overarching goal of global economic development.

The member countries, in recent meetings, primarily focused on economic recovery and regulation of financial markets following the debt crises. This leads to the perception in developing countries that G20 initiatives are primarily concerned with the stability of key industrial and emerging economies and that proceedings of the forum have no specific bearing on them. Thus, a specific focus on the development objectives for developing countries appears to be missing from those of the G20. The membership in the G20, as per its objectives, includes countries and regions of systemic significance for the international financial system. Interestingly, Norway, which is the largest contributor to the World Bank and UN development programs, is not a G20 member state.

### **Broaden mandate to include economic security**

According to the G20 mandate, global economic stability can be achieved through better governance of the international financial system. This mandate however, must be broadened to global economic security and not just focus on a stable international financial system. The latter goal will be subsumed in the former while the reformed mandate will convey the sense that the G20’s mission extends beyond strengthening of financial markets and fiscal consolidation. It will also reflect the understanding that the fate of emerging markets and developing economies has consequences for the stability of key industrialized economies. The recognition of this interdependence will be beneficial for all countries. For this, it is important that members be elected based on their commitment to global development and not merely on economic might. For instance, as a member of the G20, Pakistan would be committed to promote pro-poor growth which benefits all developing countries, especially in relation to the critical areas of food and energy security. Pakistan’s involvement in the forum could also be instrumental in combating terrorist financing which has been one of the key concerns for the G20.

The G20 must seek to protect the development gains achieved by developing countries. Policies aimed at fiscal reform for instance, should not roll back the progress made by these countries but instead seek its sustainability. Policies and programs need to address wide-ranging issues, such as poverty alleviation, unemployment, food security, alternative energy sources, water security, impact of climate change particularly on agro-based economies, and issues of migrant workers from less developed countries to name a few.

It is imperative that the requisites of social development are not forgotten in the pursuit of economic development. In this context, national development priorities and strategies need to be respected and G20 programs need to be mindful of local needs and constraints. Economic openness needs to be encouraged for all countries, but it is equally important to recognize the limitations of developing countries and the extent of their vulnerability to trade and financial liberalization.

The lending practices of multilateral organizations like the IMF and World Bank to developing countries and the underlying prerequisites need to be reviewed and revised where necessary. Development assistance must suit the needs and circumstances of individual countries and the G20 forum can be used for conducting dialogue and discussion between these multilateral organizations and vulnerable countries to render increased flexibility to their lending programs based on domestic conditions.

### **Beyond neo-liberal prescriptions**

The neo-liberal policy prescriptions contained in the Washington Consensus have been challenged as a result of the recent financial crises. While commitment to free market principles, private ownership and competitive markets is desirable in and of itself, issues of equity, social and human security in all countries cannot be overlooked. Major economies have been undergoing severe challenges in the past few years which have added renewed focus to issues of regulatory reform and governance. Nevertheless, it is imperative that these countries resist retreating to protectionism because such a move will also weaken economies of developing and emerging economies. Trade and financial protectionism creates an uneven playing field often to the disadvantage of developing countries. The G20 in its policies and programs must show its commitment to balanced and sustainable global growth and resist any action which may impede the progress already achieved by developing and emerging countries.

One way in which development can be sustained in the developing countries is through capacity building. The G20 can play an important role if its programs are designed around the MDGs, particularly in areas of education, child and maternal health, environmental sustainability and the eradication of poverty and hunger. Infrastructural development is also important for sustainable development. In addition, G20 can use its platform to lend support and rapid disbursement of funds to vulnerable groups in developing countries in the face of natural disasters and conflict.

The G20 can advise developing countries on fiscal reform based on the assessment of domestic constraints and opportunities. They can help identify and invest in country-specific sectors which impact the most vulnerable groups in society, such as children and women. Programs can focus on enhancing agricultural productivity through transfer of technology, SME development in which women are likely to be employed as employees or as entrepreneurs and have access to micro-credit etc. The issue of technology transfer which is essential for capacity building however, needs to be addressed. The North-South divide in access to technology is critical for the future development prospects of the South as progress in industrial sectors as well as in the health and education sectors are often constrained due to intellectual property rights. Equally important is to make use of regional cooperation blocks, such as South Asian Association for Regional Cooperation (SAARC), Association of Southeast Asian Nations (ASEAN) and the African Union for reaching out to non-member developing countries and institutionalizing dialogue. Also, just as World Bank, IMF and EU are represented at the G20, these organizations can be invited into the G20, perhaps in an observer status along with development organizations like the Asian Development Bank (ADB), African Development Bank (AFDB), and the Islamic Development Bank (IsDB).

Presently, the G77/China acts as an informal grouping of developing countries. The G20 can hold bi-annual discussions of representatives from the South on the sidelines of the G20 summit and use the forum's platform for discussions concerning issues and challenges common to all developing countries. These debates can also take on a regional focus about issues related to trade and investment, labour, environment, health and education. Countries can share their domestic constraints so that possible solutions do not impede or damage the development potential of any country. South-South cooperation can be a learning experience about best practices and successful strategies among developing countries that have similar economic, political and social backgrounds.

## The global development agenda at G20: Rationale and the way forward

*Durgesh K. Rai\**

One of the most vital consequences of the global financial and economic crisis of 2008/9 is the emergence of the G20 as the world's leading forum for economic cooperation. The group has seized the power from the G7/8 as the steering committee of the world economy (Eichengreen 2009). Contrary to G7/8 which is a body of elite economies mainly from the North, G20 is a group that brings together important industrial and emerging-market countries from all regions of the world. Though it does not include all members of the United Nations, its 19 member countries represent around 90 percent of world gross national output, 80 percent of global trade and two-thirds of the world population.

Since its inception in 1999, the group's role was largely confined to tackling and the prevention of economic crisis in the world. This continued even after its elevation from a group of finance ministers and central bank governors to the summit level in November 2008. However, the Pittsburgh Summit in September 2009 marked a new beginning for the future role of the group in the global affairs. The group was designated as the primary forum for international economic policy cooperation, which indicated its role in the post-crisis era and the possible inclusion of issues that went beyond the crisis management. The Summit launched the framework for strong, sustainable and balanced growth of the world economy and the issues of development were seen as an integral part of the pledge. The Toronto Summit, June 2010, apart from discussing the recovery path and other issues led to the agreement to establish a Working Group on Development to elaborate an agenda and action plan to be adopted at the Seoul Summit. Moreover, since then South Korea has taken the initiative to put 'development' as an independent agenda for the Seoul Summit in November 2010.

### **Rationale**

The last few decades have witnessed a fast pace of growth in the world economy in general and in emerging economies in particular. At the same time, however, there have been growing cases of hunger, poverty, and malnutrition in many parts of the world. A large part of the population has not been able to benefit from the improvements in many parts of the developing regions, especially in Africa and Asia. There are trends of worsening equity situations across the world. Although, there exists a number of formal international organisations, like the World Bank, and informal forums like the G7/8, they have not been successful as yet, working in the direction to fill the development deficit. The inclusion of development as an integral part of G20's mission is of vital importance to the group itself and for the rest of the world.

---

\* Views expressed in this article are personal.



Taking up the issue of development as part of its core agenda is crucial for the G20. It will enhance the relevance, legitimacy and acceptability of the group globally in general and amongst the developing countries in particular. Given the vitality and urgency of many issues of development, any forum cannot claim to be global unless it concerns itself with this subject of great importance. Also, if the G20 continues to ignore the issues of development and focuses solely on economic growth and recovery it may lead to a perception among the developing countries that the group is just an alliance of rich countries trying to maximize the benefits of globalisation (Kumar 2010). Development in poor countries can also be a critical source of future growth in the G20 countries. Rising income in many of these countries can become new sources of global demand and destinations for investment with high returns (Okonjo-Iweala 2010).

More importantly, the G20 has all the necessary capabilities and resources to handle the development issues, at least when compared to the G7/8, which has traditionally spearheaded the global development agenda. Given the diverse mix of advanced, newly industrialised, emerging and developing countries as the members of the group, the G20 will bring a fresh perspective to the development agenda (Chandy / Gertz / Dervis 2010). The presence of G7/8 countries along with emerging donors, like China and India, can be very valuable in raising the financial and technological resources. Emerging countries have a lot of know-how to share with the developing countries since they have been facing similar challenges. Countries such as China have a great capacity to create physical infrastructure while countries like India have capacity to create soft infrastructure. The G20's special relation with the Bretton Woods Institutions, IMF and World Bank, gives it further strength to deal with development issues. Another important reason why the G20 will be more effective in dealing with development issues is that the group functions on the principle of independent monitoring; crucial to transparency and accountability of these policies.

### **The way forward**

Economic growth is central in the development process. Although, economic growth may not be the sufficient condition, it is a necessary condition for development. The most important thing that the G20 can do is to restore the pre-crisis growth momentum and take all the necessary measures to sustain it in future. The long-term growth agenda should increasingly be at the centre of G20 policy coordination. Infrastructure is the most critical element to this endeavour and there is a large deficit of finance for this purpose. Apart from financing, the G20 can play a critical role in sharing of knowledge and capacity building in the developing countries. Also, trade has been instrumental in increasing the growth rate of these countries. However, despite a pledge to avoid protectionist measures, there have been a number of such incidences that restrict imports. The group can put into effect a collective pledge to unwind these protectionist measures in a given time frame. Another important pledge is to provide duty free and quota free market access to the poor countries. The group should also keep a close eye on the implementation of measures that have been taken during the previous sum-

mits regarding, among others, the reform of the International Financial Institutions.

In terms of direct intervention, the G20 should not take up all the issues of development but pick up a few that are most urgent and can be handled in a timely and efficient manner. If it starts handling the entire range of issues from creating physical infrastructure to maintaining labour standards, it may stretch the available resources too much. This will also be a duplication of the work that is being carried out by many of the specialised multilateral agencies. Given the urgency of the problems that our world is facing today and the ability of the group to deliver the tangible results, the G20 should begin to focus on a few issues like food security, health and education.

The biggest threat that a large section of the world population is facing today is food insecurity. The cumulative impact of increasing demand and stagnant or declining investment in agriculture has dramatically increased the world food prices during the last couple of years. The number of hungry people has reached to one billion in 2009, which was 100 million more than in 2008 (World Bank 2009). The G20 can be a very effective forum in handling the issue of food insecurity. The group has got all the major surplus food producing countries, agricultural technologies, and other resources to solve this problem. Food management and distribution is one of the critical aspects of food security. In this regard, some G20 countries, like India, have a lot to share with many poor nations. Health is another area that can be taken up by the G20. A critical role would be to push forward the programs for the development of drugs for certain diseases, which are rampant in poor countries but do not provide critical markets for private companies to innovate and produce the drug. Similarly, the group can take up responsibility in promoting the processes to make up for the shortfall in reaching the education MDGs.

The inclusion of 'development' as an independent agenda at the Seoul Summit may not resolve all the issues of development, but it will certainly give a big impetus to solve some of the most vital challenges that the world is facing today. It will, also, certainly go a long way in establishing the G20 as the most important body for global economic cooperation.

## Bibliography

- Chandy, L / G. Gertz / K. Dervis* (2010): Institutional development: how the G20 may help the world's poor; online: [http://www.brookings.edu/opinions/2010/0315\\_g20\\_poverty\\_dervis.aspx](http://www.brookings.edu/opinions/2010/0315_g20_poverty_dervis.aspx)
- Eichengreen, B.* (2009): The G20 and the crisis; online: <http://www.voxeu.org/index.php?q=node/3160>
- Kumar, R.* (2010): A development agenda for G20: an Indian perspective; online: <http://www.icrier.org/page.asp?MenuID=761&SubCatId=765>
- Okonjo-Iweala, N. N.* (2010): Why the G20 should be interested in the development of the G-160+: speech at the World Bank Korea Conference on Post Crisis Growth and Development; online: [http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22602898~pagePK:64257043~piPK:437376~theSitePK:4607,00.html?cid=3001\\_3](http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22602898~pagePK:64257043~piPK:437376~theSitePK:4607,00.html?cid=3001_3)
- World Bank* (2009): Progress report of the High Level Task Force on global food security crisis, United Nations; online: <http://un-foodsecurity.org/sites/default/files/09progressreport.pdf>

## G20 and a new era for “development”

*Martina Kampmann\**

### Setting the stage

The G20 is attending to the field of ‘development’ at a historic moment. Global governance structures are engaged in a process of reinvention, and the G20 faces large expectations as well as high pressure regarding its efficiency and performance. Although most of its member countries in the West and from the ‘emerging economies’ are talking on par, they are not yet well attuned to each other in a world where balance has changed and the rules are being re-negotiated. Issues of global importance have to include above all global public goods at a highly aggregated level, but they should be off set by manageable ‘disaggregated’ solutions, in order to determine who can make which contribution, and at which level (see Kaul in APuZ, 23 Aug. 2010).

Among the G20 member states, ‘development’ is understood in its broadest sense: the High Level Working Group on Development (HLWGD), which was formed in the aftermath of the G20 summit in Toronto and the subsequent meeting in Korea (20–22 July 2010), will tackle a widened spectrum of issues. This approach results from the perception that development cannot be brought about through ODA alone, but by closely interlinking questions of trade, investment, infrastructure etc.

With the founding of the HLWGD, the G20 has emerged as one of the strongest forums for development policy. It should make a difference within the G20 in its role as a “*premier forum for international economic cooperation*”, as specified at the Pittsburgh Summit. It is both its clear focus on development towards economic growth, which should help the developing countries on the path towards sustainable development, and the inclusion of the private sector, which do justice to this economic orientation of the G20. Thus, the G20 development initiative does not interfere with other forums such as the OECD-DAC or UN-DCF, as Sa Kong II, Korea’s delegate at the G20 summit, explains in an interview on 1 August 2010 (see transcript on Arirang News, 3 Aug. 2010):

*“Development issues so far, at the level of the G-7 or the U.N., have mostly dealt with providing development aid. We are now stressing the issue of how to stimulate growth through an effective market economy. Public-private partnerships are one way, and we are actively discussing ways to link private capital with public capital.”*

The developing countries would have to become the engine of new global economic growth for which human resources would be indispensable:

*“You do that not by just giving them aid. You give them what we call the capacity building capabilities. So, you are talking about education, training, you are talking about a*

---

\* The views expressed in this contribution do not necessarily reflect the views of GTZ but only those of the author.

*whole set of capabilities of these countries that would allow them to develop on a more medium to long term, and would really create the type of growth that we really need for the global economy.”*

### **Towards a new scope of development**

Several features of the G20 are relevant with regard to a new orientation of development: First, beyond the contribution of ODA, development is considered as related to and playing part in many other fields all of politics, particularly through involving trade, investments, infrastructure etc. Second, the understanding of development in the G20 is not only influenced by ‘traditional’ donor countries, but also by the views and conceptions of emerging economies, the two of which are by no means consistent. Furthermore, a development group within the G20 ought not to overlap with other platforms. The G20 taking on the matter of development could not only result in a considerable loss of status for the G8, but also for the OECD-DAC. Moreover, differences between the bilateral positions of member states might arise, which may partly have historical roots.

The stronger integration of new and rising powers in the development dialogue aspired to could offer an opportunity for their ‘socialisation’ within the established principles and norms of development cooperation à la OECD-DAC. Such norms may be re-negotiated if more members are admitted, but they comprise the long term experience of ‘traditional’ donors and of recipient countries not included in the G20.

The Korean government argued that only Korea, as a former aid-receiving country, can build a bridge between the G8 countries – most notably its protector, the US – and the emerging economies – particularly China, which is Korea’s main trading partner. With the “Korea Initiative”, Korea has once already set the course for a new understanding of development in which an important role is ascribed to both economic development and the contribution of the private sector, arguably paralleling Korea’s own rise. The contribution to “Green Growth”, which Korea will most certainly bring into the G20 round by way of establishing a new committee, is an exceptional signal from an emerging economy which others ought to follow. One might ask provocatively: What if the emerging economies, in the short-term, intensively invested in green policies and innovative technologies, and thus outwitted the reluctance of the global community to do so?

However, one can still follow the confrontational “what is better, what is worse” dispute in the speeches and evaluations of the South-South debate. We need to continue discussing this issue in a joint learning process. In our experience, development is not about the dichotomy of ‘North-South’ or ‘South-South’ cooperation. Rather, it is a matter of numerous actors working together in cooperative schemes that are based in practice and raise efficiency. These would ideally keep in mind the relative strengths of each party involved: inclusive and systemic approaches, well coordinated by the partner country, resulting in the desired outcome.

Moreover, what might be the most important common denominator to the European members is to hold the politics of ‘open markets’ against high tariffs and protectionism even at

times of crisis, such as the UK has resolved to do for its positioning within the G20 (see Chatham House conference, 12/13 July 2010).

### **Opportunities and challenges for a G20 menu on development**

The G20 community with its various participants cannot be a confrontation of the ‘know-it-alls’ against the ‘new comers’, but rather should be a platform for dialogue and learning which merges the experience of the different G20 members and the ‘recipient’ partners. We are all facing global challenges equally, in particular with regard to global public goods. The foundation of this dialogue is the growing certainty that global responsibility rests on all shoulders, that it should be a ‘global development partnership’. The disaggregation, as proposed by Inge Kaul, will hopefully be undertaken by each working group of the G20 and in the case of the HLWGD around eight pillars – at present a matter of the responsible government representatives. Some preliminary thought on this will follow.

- As of yet, one can barely recognise to what extent the politico-economic approach will be linked to providing for climate/ecological requirements and social processes – as these are a prerequisite for sustainable development (without, on the other hand, comprehensively treating ‘all’ development issues alike, as is being done already in other forums). Therefore, the Korean “Green Growth” initiative, just as the German experience in applying sustainable economic principles, should take up a prominent position within all approaches towards economic growth. Progress of reforms could be measured not only according to economic growth, but especially by social benefits and the efforts to eliminate inequality in the societies, one of the main factors hindering the achievements of the MDGs in many countries (Jan Vandermortele, UN, reviewing present efforts on MDGs, 21 September 2010 at GTZ Eschborn). Should therefore enhancement of ‘equality’ in the societies be one of the new indicators towards MDGs beyond 2015? Could the G20 find a new consensus on this and even measure its efforts, e.g. through joint evaluations or peer review processes ? (see also Paulo / Reisen 2010)
- Do we, with all this focus on economic growth, have to neglect a tender issue such as human rights? How about if the question of human rights and the rule of law, without which sustainable growth could hardly be achieved, were to be integrated in the collaboration of European members and China in a so-called triangular cooperation with, say, Zimbabwe? One can assume, that the non-G8 members will support a broad perspective in the understanding of G20 pillars on development. For instance, according to Korea, private investment should include public-private partnerships, taking account of the debate on linking private and public capital. In the area of infrastructure, infrastructure-related governance issues are proposed, including tax reforms to improve mobilisation of domestic finance resources, as well as regulatory and property rights reforms. Regionally integrated infrastructure needs should also be addressed. But, as of our long term experience in development, previous mistakes must be avoided. In many countries where investments addressed the infrastructure needs without providing for the appropriate maintenance capacities and building up adequate institutions, only ‘investment ruins’ remained. Korea is



also supporting the area of ‘knowledge exchange’ and will raise expectation in enhancing its bilateral aid to Africa.

- The G20 is not an organisation with operational capacities. At the moment, the IFIs receive the main attention with regard to their analytical capacities and their financing function in the (aid) system. However, the IFIs’ efforts should not only result in the creation of even more funds under multilateral administration. Instead, the bilateral members should collaborate with the developing partners in their function in highly valued complementarity as implementing actors, including in forms of trilateral cooperation and multi-actor networks. South-South and triangular cooperation should be expanded in manifold ways, since it enhances trusting North-South and South-South collaborations, and a process of learning together that keeps in mind the aims to be discussed between all parties.
- Partner countries should take the lead whenever it is possible; whereby fragile states will receive special attention in present bi- and multilateral strategies. Partner countries’ capacities to manage the complex mix of public policies as well as to choose the appropriate instruments and providers, will become even more important. This is especially true for fragile states which receive increasing attention in view of global security.
- Awareness-raising ‘at home’ remains crucial: In light of the financial and economic crisis, the issue of development aid is even harder to communicate to the public. A broader understanding of global chances and of development in the partner countries should be emphasised, which lies in their own national interests and has international benefits at the same time. Engaging civil society in this process of awareness-raising would prove beneficial.

Among the challenges faced by the G20 towards more effectiveness and legitimacy is a new management of the complex issues of membership and processes. This is one of the points that is urgently discussed on the way to the next G20 summit in Korea in November 2010. Sa Kong II emphasises: “*The G20 Seoul Summit aims to inherit the role from the IMF and manage member nations’ differences more effectively.*”

France clearly advocates the establishment of a permanent G20 secretariat. For the question of an office to support the complex processes of the G20 at a ‘high level’, ministerial and other levels, the networking and management experience of European members could be of great value. France will undoubtedly attach great importance to the HLWGD and use this working group to position itself in the context of development and international cooperation.

The HLWGD should seek functionally relevant relations to other groups within the G20, keeping in mind to support the complementarity of the development initiative with other bodies and platforms (e.g. OECD-DAC, UN-DCF, BRIC).

## Bibliography

Paulo, S. / H. Reisen (2010): Eastern donors and Western soft law: towards a DAC donor peer review of China and India?, in: *Development Policy Review* 28 (5), 535–52

## Authors

**Manmohan Agarwal** is Senior Visiting Fellow at the Centre for International Governance Innovation (CIGI) in Waterloo, Canada. Prior to this, he was Dean of the School of International Studies and Professor at the Centre for International Trade and Development at Jawaharlal Nehru University in India.

**Alexandre de Freitas Barbosa** is Professor of Economic History at the Institute of Brazilian Studies – University of São Paulo (IEB/USP) and has a PhD in Economics at the University of Campinas (UNICAMP). He is currently working on Brazil's new role in the global economy and in geopolitics.

**Aldo Caliari** is Director of the Rethinking Bretton Woods Project at the Washington D.C. – based Centre of Concern. His focus areas are international financial regulation, debt, human rights in international economic policy and trade/finance linkages.

**Gregory Chin** is a professor of political science at York University (Canada), a senior fellow of the Centre for International Governance Innovation and associate fellow of Chatham House. His research focuses on global governance reform, China, and the rising states.

**Jin Fang** is a research fellow at the Development Research Centre of the State Council of the People's Republic of China. His research interests include China's foreign economic policy and international economics.

**Thomas Fues** is head of the training department at the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) in Bonn. His main research interests are global governance, rising powers, United Nations and international development cooperation.

**Khalida Ghaus** is currently serving as the Managing Director at the Social Policy and Development Centre (SPDC) in Karachi (Pakistan). She has a PhD in International Relations. She has formerly been the Director of the Centre of Excellence for Women Studies and is Chairperson at the Department of International Relations (University of Karachi) and the Pakistan Centre for Democracy Studies.

**Colin Gleichmann** is a Senior Special Task Officer with the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, the German technical cooperation. He works for the Strategy Centre 'New Partnerships for Global Development' at GTZ Head Office in Eschborn, Germany.

**Yulius P Hermawan** is Head of the Department of International Relations, Universitas Katolik Parahyangan, Indonesia. He is now undertaking a research project on "The Role of Indonesia in the G-20 Process: Formulating Recommendations for the G-20 Summit in 2010" (in



cooperation with Friedrich Ebert Stiftung Indonesia).

**Sir Richard Jolly** is Honorary Professor and Research Associate of the Institute of Development Studies at the University of Sussex. He is currently President of the British Association of Former UN Civil Servants and a Council member of the Overseas Development Institute. He has formerly worked for the United Nations (UNICEF and UNDP) and has been coordinator of the Human Development Report.

**Thomas Kalinowski** is a political scientist and an assistant professor at the Graduate School of International Studies, Ewha Womans University, Seoul, South Korea. He teaches international political economy, international organisations and development.

**Martina Kampmann** is Director of Global Partnerships, Strategic Corporate Development Department at the German Technical Cooperation Agency (GTZ). In this capacity she heads GTZ International Partnerships, including cooperation with EU, World Bank, OECD as well as bilateral co-operation and co-operation with networks; and supports the German Ministry for Economic Cooperation and Development (BMZ).

**Gilbert M. Khadiagala** is Jan Smuts Professor of International Relations and Head of Department at the University of the Witwatersrand, Johannesburg, South Africa. His research focuses on African security, governance, regional integration, and conflict resolution. He recently published “Meddlers or Mediators? African Interveners in Civil Conflicts in Eastern Africa” (2007).

**Eun Mee Kim** is Professor and Director of the Institute for Development and Human Security (IDHS) at Ewha Womans University. She is currently the Principal Investigator on a research grant on development cooperation and human security, and serves as a civilian member on the Committee for International Development and Cooperation under the Prime Minister’s Office of the Republic of Korea.

**Adolf Kloke-Lesch** is Director of the Strategy Centre “New Partnerships for Global Development” of the German Technical Cooperation (GTZ). Previously, he served as Director General “Global and Sectoral Policies; European and Multilateral Development Policy; Africa; Middle East” in the Federal Ministry for Economic Cooperation and Development (BMZ).

**Ashwani Kumar** currently is Associate Professor and teaches political science at the Tata Institute of Social Sciences in Mumbai. He has been Visiting Fellow at the Centre for the Study of Global Governance at LSE (London) and is one of the Chief Editors of the Global Civil Society Yearbook 2009, “Poverty and Activism” (Sage 2009).

**Youfa Liu** is Vice-President of the Chinese Institute of International Studies (CIIS) in Beijing. He is a visiting research fellow at Fudan University in Shanghai. He has published extensively

on international trade and the world economy.

**David Mayer-Foulkes** has been Professor of Economics at CIDE in Mexico City since 1991 and is director of the journal *Economía Mexicana*. His research focuses on theoretical and empirical aspects of poverty trap models of underdevelopment, explaining low levels of both productivity and human development in the context of globalisation.

**Ricardo Camargo Mendes** is partner of Prospectiva Consulting and Lecturer of International Relations at Trevisan Business School in São Paulo. He holds a MPhil in International Relations from the University of Cambridge and is currently working on Brazil's trade policy agenda for high tech and services industries.

**Garth le Pere** is Senior Partner at DAJO Associates and Visiting Professor at the University of Pretoria, South Africa. From 1995–2009 he was Executive Director of the Institute for Global Dialogue in South Africa. His recent work has concentrated on globalisation and emerging markets, normative approaches to global governance, the post-colonial state in Africa, and China's increasing role in Africa.

**Durgesh K. Rai** is Research Associate at the Indian Council for Research on International Economic Relations (ICRIER), New Delhi, India. His areas of interest include global trade, regional economic integration and cooperation, trade and development, WTO.

**Helmut Reisen** is Head of Research of the OECD Development Centre. His recent work includes analysis of sovereign wealth funds, an investigation into China's economic impact on poor countries and on their debt sustainability and an overview of innovative approaches to funding the Millennium Development Goals.

**Máximo Romero** was Director General for Technical and Scientific Cooperation at the Ministry of Foreign Affairs in Mexico until August 2010. He is co-founder and president of the Civil Society Organisation "Strategies for International Development Cooperation" (Cooperación Estratégicas para el Desarrollo, AC).

**Gabriela Sánchez Gutiérrez** earned a PhD from the University of Paris VIII in Education Sciences, with a specialisation in institutional analysis. She now is a Research Professor for the Instituto Mora in Mexico, in the area of international cooperation for development.

**Vinay Kumar Singh** is Additional Director (Faculty) in the National Academy of Direct Taxes of the Government of India in Nagpur. His areas of interest include public health, the economics of taxation and corruption, sustainable growth and asset bubbles.

**Ernesto Soria Morales** is Senior Policy Analyst at the OECD Heiligendamm–L'Aquila Process Support Unit. His work focuses on the global aid architecture, South-South and triangular cooperation, and policy coherence for development. He formerly collaborated with the

Mexican Ministry of Foreign Affairs and has been Professor at the National Autonomous University of Mexico and at the Mora Research Institute (Mexico).

**Leena Srivastava** is currently Executive Director at the Energy and Resources Institute (TERI) in New Delhi, India. Among other assignments, she is a member of the Advisory Group on Energy and Climate of the UN Secretary General and a member of the International Advisory Panel of the Global Carbon Capture and Storage (CCS) Institute.

**Uwe Wissenbach** is Counsellor and Head of the Political Section of the European Union Delegation in Korea. His private research interests and publications are about China in Africa, multilateral governance and regional integration. He is also Senior Research Fellow at Renmin University's Centre for European Studies.

**Peter Wolff** is head of the department "World economy and development financing" at the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) in Bonn. His recent work focuses on the consequences of the global financial and economic crisis for the developing world and for global economic governance.

**Pablo Yanes Rizo** holds a degree in Economics from the UNAM, Universidad Nacional Autónoma de México, and a Master in Government and Public Affairs from the same university. He now is General Director of the Social Development Evaluation Council of Mexico City.

**Haibing Zhang** is Deputy Director of the Institute for Economic Comparative Studies, Shanghai Institutes for International Studies (SIIS). She specialises in the study of development issues, especially on China's foreign aid and regional economic cooperation.