Macroeconomic Policy Interdependence and Developing Countries: Is Mutual Assessment for Members Only?

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The decision at the G-20 Pittsburgh Summit in the fall of 2009 to install a Mutual Assessment Process (MAP) as an analytical underpinning of a more rational debate on economic policies was clearly a remarkable step toward a more cooperative way of economic policymaking in the major economies. Particularly noteworthy is the role of the International Monetary Fund as a facilitator in this process. In the past, IMF surveillance had to be taken seriously only by indebted developing countries. They had to fear the consequences of misbehavior, in terms of strict conditions on the use of financial support from the Fund. For the other countries, IMF surveillance as a routine exercise prescribed for all IMF members in its Articles of Agreement has become less and less relevant since the Fund does not have any influence on the economic policies of non-borrowing members. And when in 2006 a new process of multilateral surveillance was installed by the IMF in order to tame the conflict between the U.S. and China on the perceived overvaluation of the Chinese renminbi, it ended up as a dialogue of the deaf without any tangible results.

To be precise, the MAP is not about surveillance. The role of the IMF—with input by other multilateral organizations, particularly the World Bank—is that of an independent technical advisor to the G-20. The IMF was asked to provide a thorough analysis of the submissions of policy frameworks by all G-20 members that would entail "(1) identifying the inconsistencies and incoherence of national assumptions in G-20 submissions; (2) analyzing the multilateral compatibility of country submissions; (3) analyzing the aggregate impact of national policies on global economic prospects; and (4) identifying what additional policy commitments might be needed to reach the G-20 members' objectives".[1] The overall objective of the G-20 has been to provide a resilient recovery from the great recession that would lead to strong, sustainable and balanced global growth.

In its assessment, the Fund has confronted the G-20 with a clear message:[2] the aggregate policies of the G-20 members as stated in their submissions will not lead to the desired outcome. Global growth will most probably be lower than expected and global imbalances are expected to resume widening through 2014. World GDP would be higher by around 2 percent by 2014, if G-20 members would pursue more collaborative policies in terms of joint action on three fronts: structural reforms and exchange rate flexibility, fiscal consolidation, and product and labor market reforms. Insufficient internal rebalancing and the absent external rebalancing were identified as serious risks to the sustainability of global growth.

In accordance with its assignment by the G-20, the Fund is concentrating its analysis on the G-20 economies and their aggregate effects on the global economy. Although the G-20 members cover around 90 percent of global gross national product and thus clearly dominate the pace of the global economy, the absence of the rest of the world from the analysis is striking.

A supporting document by the World Bank opens the perspective for the global economy as a whole and makes it clear that the contribution of developing countries to global growth is not limited to the emerging markets represented in the G-20.[3] Low-income countries (LICs) are increasingly interlinked with emerging markets and contribute significantly to global growth. Rebalancing of the global economy is not confined to the G-20 members as a zero-sum game but has to include the developing countries where significant contributions to alleviate the "global demand deficit"[4] can be expected.

In this context, it is again striking that the policy recommendations of the IMF for internal rebalancing in emerging surplus economies are confined to G-20 members only: "(1) a gradual increase of government investment of 2 percent of GDP, starting in 2011 and implemented over 3 years in the *emerging Asia* region of the model; (2) targeted transfers to the poor to strengthen safety nets—amounting to around 2 percent of GDP".[5]

Of course, the underlying assumption of the IMF approach is that emerging surplus countries do have fiscal space that allows them to finance additional expenditure through higher fiscal deficits. Most low-income countries do not have this option, since their fiscal position is rather weak after the crisis, as the IMF has stated in an earlier analysis.[6] However, if the G-20 really endeavors to take responsibility for the global economy as a whole, it is necessary that investment, social safety and growth in the about 90 low-income and lower-middle income countries, and not only in emerging countries, have to be taken into consideration.

Here, the G-20 Development Agenda comes into the picture as laid down in the Seoul Consensus for Shared Growth with the commitment "…to work in partnership with other developing countries, LICs in particular, to help them build the capacity to achieve and maintain their maximum economic growth potential".[7] The main features of the Seoul Development Consensus are nine thematic areas ("pillars") that are seen as critical for accelerated growth in developing countries (infrastructure, human resource development, trade, private investment and job creation, food security, growth with resilience, financial inclusion, domestic resource mobilization). A Multi-year Action Plan on Development is supposed to support the actual implementation. Thus, it addresses the need for a growth strategy for developing countries that have been absent from the analyses of the IMF so far, the implicit consideration being that less developed countries benefit from global growth, but they do not contribute to it.[8] With a more forward looking perspective, the Seoul Consensus gives the reason why a growth strategy for developing countries is warranted also for global rebalancing: "... because the rest of the global economy, in its quest for diversifying the sources of global demand and destinations for investing surpluses, needs developing countries and LICs to become new poles of global growth—just as fast growing emerging markets have become in the recent past".[9]

Obviously, there are good reasons why growth and development in the rest of the world should not be dealt with separately from the process of macroeconomic policy coordination among the G-20 member countries. This refers also to the macroeconomic and structural indicators which are to be developed for G-20 members throughout 2011. Notwithstanding the difficult political process of reaching an agreement about a common set of indicators, the question remains why there should not also be a discussion on a set of monitorable indicators for investment rates in developing countries and related sources of finance.

Going beyond national policies and their mutual assessment within the G-20, macroeconomic policy coordination must also address the global policy framework and global economic regimes, particularly in the areas of international finance, trade, commodities, knowledge and climate change.[10] Global economic governance reform needs to systemically integrate the overarching objectives of poverty elimination and inclusive growth. The G-20 has to embed its policy coordination process in this framework (also captured by operational indicators) otherwise its legitimacy and effectiveness will be severely constrained due to outside criticism and popular rejection. Findings and policy recommendations flowing from the G-20 Working Group on Development should be linked to the policy coordination mechanism to provide for overall policy coherence of individual states and the group as a whole.

As welcome and necessary as such innovative efforts on macroeconomic policy coordination are, they are not sufficient for planetary stability and global development. The G-20 needs to go beyond balancing the world economy and accept its responsibilities for global welfare and the special requirements of low-income countries. The MAP and macroeconomic policy coordination must, therefore, be systematically linked to the Seoul Development Consensus, thus clearing the way for a global social contract which guarantees human security, inclusive growth and sustainable prosperity for every individual and society.

With regard to the developmental dimension of macroeconomic policy coordination, the following steps are of primary concern:

- provide conducive framework conditions in the global economy and promote coherence across global regimes in order to support the structural transformation of developing countries toward inclusive, sustainable and low-carbon growth;
- assist developing countries in managing excessive capital inflows as a result of the monetary expansion in the U.S. and Europe; including capital controls and enhanced mechanisms for financial supervision and regulation;
- increase the voice of all developing countries in the formulation of global financial regulation and expand their representation in regulatory standard-setting bodies such as the Financial Stability Board as well as the Bretton Woods institutions;
- contain excessive commodities market speculation in order to safeguard food security and price stability for all developing countries;
- address current and future debt crises of developing countries by designing a new framework for sovereign debt relief and, as a short-term measure, extend the HIPC initiative to include all low-income countries and vulnerable lower middle-income countries;
- stop "murky protectionism" of G-20 members by the introduction of comprehensive mechanisms for duty free/quota free market access for all low-income countries;
- support universal standards on corporate social responsibility which cover the whole extent of global value chains building on, harmonizing and integrating existing multi-stakeholder efforts in this field (as committed in the Seoul Action Plan);
- introduce national laws in all G-20 countries along the lines of the recently passed Dodd-Frank financial reform legislation in the U.S. in order to promote universal transparency in extractive industries;
- agree on a global standard against which transnational companies must report their activities in their annual accounts, on a country-by-country basis in order to combat tax evasion and avoidance and help developing countries to raise resources domestically;
- mobilize financial resources in support of inclusive growth in developing countries and for the provision of global public goods as a key development challenge for the G-20 through introduction of a financial transaction tax;
- formally link the G-20 process to deliberations and policymaking of U.N. bodies such as the General Assembly and ECOSOC; and
- institutionalize G-20 mechanisms for inclusion of and outreach to non-member states and non-state actors.

How can the developmental dimension be integrated in the MAP and the G-20 debates on policy coordination? We suggest that the submissions of the G-20 members on their policy frameworks should contain a chapter on the linkages between national economic policies and the Seoul Development Consensus for Shared Growth and its companion Multi-year Action Plan on Development. This procedure would contribute to enhancing policy coherence for development at the domestic level. In their assessments of the national submissions, the IMF and World Bank would also have to evaluate them in consideration of the impact of G-20 policies on low-income countries, with formal comments to the IMF/World Bank analysis by UNCTAD and UN-DESA. Such analysis would contribute to improving global framework conditions for developing countries.

In parallel to such incremental reform steps, the G-20 needs to deepen the shared normative framework of global governance along the lines of the leaders' statement of the G-20 Pittsburgh Summit in September 2009: "we have a responsibility to recognize that all economies, rich and poor, are partners in building a sustainable and balanced global economy in which the benefits of economic growth are broadly and equitably shared. We also have a responsibility to achieve the internationally agreed development goals."

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Endnotes

[1] IMF (2009, p.3).

[2] IMF (2010a).

[3] World Bank (2010).

[4] IMF (2010a, p. 12).

[5] IMF (2010a, p. 17).

[6] IMF (2010).

[7] Seoul Summit Declaration.

[8] IMF (2010)

[9] Seoul Summit Declaration, Annex I.

[10] UNCTAD (2010).