A Development Agenda for the Seoul 2010 G-20

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The G-20 has met several times already and yet the meeting of this group is still a new attempt in some ways. The G-20 was reborn in the middle of the world financial crisis and has since been struggling to deal with its aftermath, particularly in restructuring the international financial system and entrenching a global economic recovery. We are nowhere near the point where we can confidently say that these issues have been successfully dealt with and so the G-20's preoccupation with these immediate policy issues is certainly understandable.

However, if the G-20 is to become an important and commanding part of the global governance structure, it must start paying attention to major policy issues that emerging and developing countries face in their pursuit of development and poverty reduction. In the past, the G-20's predecessor, the G7 and G8, would go through the rituals of making official statements that expressed support for development targets like the Millennium Development Goals, which I must agree with Jagdish Bhagwati are no more than a set of "aspirational do-good targets" (*Finance and Development*, September 2010). They would make promises of increasing aid, which would often turn out to be empty or, worse, "fulfilled" by gimmicks such as double-counting and other "creative" official development assistance accounting practices. I think with the G-20 being comprised of several emerging and developing countries, it should aid and directly tackle the policy issues for growth and development.

I am sure there will be many such issues requiring global or international attention and my colleagues of the Think Tank 20 (TT-20) will certainly raise them. On my part, I would like to propose two issues for the G-20; one issue requires urgent and immediate resolution and agreement among the international community and the other will require a longer time to resolve but is nevertheless important for the smooth functioning of the global economy.

The first issue is the international exchange rate policy and regime. This issue is currently being hotly debated in anticipation of the G-20 discussions of global imbalances and the necessary remedial measures that surplus and deficit countries should take for the good of the global economy.

However, the debates are too preoccupied with and narrowly focused on the immediate U.S.-China trade problems and the flexibility and inflexibility of the Chinese yuan. The days when the "bipolar" doctrine was regarded as an international norm are long gone. Although most people believe that exchange rates should reflect economic fundamentals, they also often recognize that foreign exchange markets often allow rates to deviate substantially from such fundamentals-based rate levels and for fairly long periods of time. The Asian financial crisis and the current world financial crisis have amply shown that one reason for such exchange rate volatility and overshooting and/or undershooting is short-term capital movements of an enormous magnitude—"sudden surges and stops" caused not so much by changes in the economy's fundamentals but by external factors and investor sentiments. They are particularly disruptive to "small and open emerging and developing economies". Managing these capital flows and their attendant exchange rate volatility have become very important to macroeconomic stability and growth of these economies. Yet, I don't think policymakers have at their disposal a set of effective policy instruments to do so.

Given the highly technical nature of the problem, the G-20 should mandate the IMF and perhaps the World Bank to study and recommend a set of well-considered "international standards" or "best practices" in dealing effectively with disruptive short-term capital movements. Some out-of-box thinking will be needed for this task, going well beyond the orthodox economic policy thinking.

The second issue that requires the G-20's attention is related to another kind of cross-border movement, namely labor migration. Labor migration is not a new phenomenon, but its enormous increase in magnitude—which is one aspect of the recent globalization trend—is entirely new. There are conventions dealing with cross-border movements of goods and services, and the World Trade Organization is an institutional framework for international regulation; there are also conventions regarding capital movements embodied in the IMF agreement and the IMF is the regulatory body. In contrast, there is no international institution that looks after international labor migration. The International Labor Organization and the United Nations Refugee Agency are involved in certain issues relating to international labor migration, but their mandates are limited in scope and authority.

It is time for the G-20 to start discussions about how to manage labor flows across national borders with a view to establishing a policy framework that would be internationally accepted by both sending countries and receiving countries. Currently, each country manages labor migration by policy instruments of a primitive nature—be they national quotas and by employment and professional categories—without any attempt for international harmonization. The way labor migration is managed today is almost like the way international trade was managed in the past before the GATT/WTO. Moreover, as the number of migrants exponentially increases, there needs to be an arrangement for their protection both legally and through economic safety-nets, which is based on some kind of minimum international standards. Taxes and subsidies, if well conceived and administered, could be good instruments to influence the volume and nature of labor migration. As in some free trade agreements, well-structured migration programs relating to temporary and permanent migration may be helpful in the regulation of cross-border labor movements. With the objective of establishing some form of international conventions, the G-20 may consider mandating the WTO—the only international organization with experience and capacity in managing similar areas (goods and services)—to start up a study group among its members.

In the end, the G-20 should not be allowed to become just an extended and bloated version of the G7 and G8. It should not be a club of the powerful, as the G7 was a club of the rich. If it is to become a core part of the global governance structure, it should take on the important issues related to international development. Since it was reborn in the midst of the world financial crisis, its leaders are naturally compelled to deal with the urgent economic recovery issues at hand. However, for the G-20 to properly deal with the important issues of global development, it should be given a robust development agenda from the very beginning. I hope very much that the TT-20 will be helpful in the creation of this development agenda for the G-20.