Addressing Development at the Seoul G-20 Summit

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At the last G-20 Summit in Toronto, leaders committed themselves to coordinate a plan to support growth, declaring that they "are committed to taking concerted actions to sustain recovery, create jobs and achieve stronger…growth." The Toronto Summit declaration went on to say that the "G-20's highest priority is…to lay the foundation for strong, sustainable and balanced growth."

How can this strong commitment be translated into action, which is specifically tailored to developing country needs, at a time when aggregate growth of developing countries is higher than that of industrialized countries?

The answer may lie with international institutions, particularly the International Monetary Fund, World Bank and World Trade Organization. However, these institutions need to become more relevant in helping developing countries identify development priorities and implement the right programs to achieve these priorities. While these institutions lost some of their relevance during the last two decades, they have regained both relevance and influence as a result of the global economic crisis, the drying up of liquidity in the international banking system and the increase in the resources available to them. Therefore, they are now able to play a more proactive role in global development.

For the G-20 to positively impact economic growth and development in developing countries, especially the poorest ones, two important areas should be highlighted: development financing and promoting freer world trade.

Challenges and Opportunities in Development Financing

In the area of development financing, a number of challenges can be identified:

- Except for China, official development aid is drying up because of the sovereign debt and the ever-expanding fiscal and external deficits facing most donor countries.
- International banks are cash strived as a result of the crisis. Even in cases where they have enough liquidity, they are reluctant to lend to some developing countries because of the new Basel III capital requirements.
- The international banking system may face a crowding out situation when financing government debt outstrips private financing. This is mainly caused by the excessive needs of financing by deficit-stricken industrialized countries, which is leaving little room for developing country lending.

On the positive side, more resources are becoming available to the IMF and World Bank to modify its programs to accommodate least-developed countries. For the IMF, two areas of immediate concern are to expand the newly-created flexible credit line, which carries no prior conditionality, as well as the access and conditionality of the precautionary credit line.

Another important area of concern for developing countries is the need for more democratic representation in World Bank and IMF decision-making bodies. Addressing these concerns means:

- Removing the United States' effective veto power over decisions, which currently stands at around 17 percent in the two Bretton Woods institutions;

- Re-adjusting Europe's over-representation in the IMF's 24-member executive board; currently (Europe has nine executive directors including Switzerland);

- Increasing the quota, voting power and composition of the IMF executive board to include emerging and other developing counties; and

- Promoting more open and merit-based selection of senior management, including the IMF's managing director.

While the World Bank has adopted a decision since 1988 to increase its capital and shift its voting power in favor of developing countries, this process should be accelerated.

There also needs to be an increase in development financing for the least-developed countries. Even though the World Bank recently increased its resources to the Global Food Crisis Response program to $2 billion, the program should be increased and expanded even further in order to respond to growing food security concerns. The World Bank should also initiate new programs to help least-developed countries revitalize their agricultural sectors. More funds from the International Development Association—the lending arm of the World Bank—should be redirected to programs that are most relevant to the least-developed countries, including climate change adaptation, gender equality, fragile states and aid effectiveness. In its capacity, the G-20 should encourage shifting development aid from the bilateral level to multilateral institutions with specified targets and programs, such as fighting poverty, eradicating infectious diseases, tackling local environmental problems and implementing programs that increase access to affordable clean energy (like the Saudi-inspired *Energy for the Poor Initiative*).

Promoting a Freer World Trade Regime

Everybody recognizes that freer world trade is in the interest of all parties, particularly developing countries. Therefore, it is essential to successfully conclude the Doha Development Round, especially on the issue of agricultural subsidies. The Doha Round is becoming ever more important with the world beginning to face serious problems in food supply.

In addition, emerging and other developing countries are now more compliant than industrialized countries with the rules of the WTO. This issue has to be urgently addressed by the upcoming G-20 Summit in Seoul.

During the 2009 London G-20 Summit, leaders fell short of committing to a deadline for the conclusion of the Doha Round due to objections by the United States. Industrialized countries have subsequently been busy signing bilateral trade agreements. The contradiction between a credible multilateral trading system and simultaneously undermining it with bilateral free trade agreements must stop.

Additional Issues to Consider

While solving the challenges of development financing and concluding the Doha Round of the WTO negotiations are critical for the G-20's agenda for global development, there are three additional issues that should be considered:

- Debate is now flaring up around currency realignments. This issue dominated the discussions during the latest annual meeting of the IMF and World Bank and will be a major agenda item for the Seoul G-20 Summit. Reforms to the world monetary system, which was previously neglected at prior G-20 summits, will certainly force leaders to act this time around. The present rivalry among trading partners to devalue currencies directly or through quantitative easing will destroy the present trade regime since somebody ultimately has to lose and that will most likely be least-developed countries.

- Developing countries will also be affected by the outcome of the ongoing debate between those who support growth through allocating more public funds to stimulate the economy and those who argue for tackling the deficit first. If stimulus programs are stopped, growth will be retarded and developing country exports will be impacted. On the other hand, if the industrialized countries continue to inject more funds into the economy—the major part of which will most likely be through quantitative easing—developing countries, whose currencies are not convertible, will be the biggest losers.

- The issue of energy, especially oil and gas, is always on top of the agenda in major international economic meetings. The emphasis has been mainly on the security of supply. Major oil and gas producers have taken it upon themselves to ensure continuity and reliability of supply to fuel world economic growth. They direct investments to increase oil production capacities sometimes at the expense of their vital development programs in order to fulfill this commitment and to ensure that enough excess capacity is in place to fill any possible interruption in supply. There is a need for demand predictability to justify their investment in this vital sector, sometimes at the expense of other development needs.