

Development in the G-20: Common Ground?

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The Lack of Common Ground on Financial Issues

There seems to be more that divides the G-20 than unites them. Exchange rate parities, quantitative easing, fiscal consolidation, sovereign debt, financial regulation and IMF governance reform are a few topics that are spurring acrimonious debate rather than coordination. The agreements reached at the finance ministers' meetings are more a patch than a breakthrough, which is better than an open disagreement, but lacks significant change.

The sense of common purpose, which served the global community so well in Washington, London and Pittsburgh, is in danger of disappearing. Some hard-nosed analysts are asking whether the G-20 has actually achieved anything different from what countries would have done on their own accord when faced with the global financial crisis.

The Seoul G-20 Summit was supposed to move the group forward from a crisis-response group to a crisis-prevention body. Like many international gatherings, the G-20 is being asked by a worried and skeptical public "what have you done for me lately?" Regarding jobs—one of the most important issues for the general public—the G-20 seems impotent and irrelevant. The G-20 has made significant progress on particular issues, such as rules for financial regulation, but their publics are uninterested.

Development as a Common Purpose

The reality is that the G-20 needs a purpose that people care about and that it can act on by reaching agreement to make a difference. So far, the grand

issues of global rebalancing and fixing international financial markets and institutions fall short on one or both of these two requirements.

Development cooperation—to improve the lives of the world's poorest citizens—could be where the G-20 finds common ground.

On September 22, President Obama signed a new U.S. Presidential Policy Directive (PPD) on Global Development, the first of its kind by any U.S. administration. The PPD outlines a 21st century development policy that asserts that a successful pursuit of development is essential for a just and sustainable international order—the very goal of the G-20. The PPD emphasizes that the new U.S. approach to development should be broad-based, long term and coherent across trade, investment, finance and aid.

Development is one of the few remaining areas in U.S. politics that continues to enjoy bipartisan support, due to its large popularity. A 2005 Program on International Public Attitudes (PIPA) survey found that 71 percent of Americans were in favor of giving up to \$50 per household to alleviate poverty if other rich country households did the same. Other polls found Americans strongly in support of solving international problems together with other countries. A large majority of Americans believe the U.S. should take a major role, but not the leading role, in trying to solve international problems.

People in other G-20 countries also genuinely care about development. Despite the economic situation, a new poll of 26,500 Europeans from June 2010 shows that 89 percent of Europeans remain

staunch supporters of development cooperation (responding that development cooperation is fairly important or very important to them) and support the EU strategy to increase development assistance as promised toward a target of 0.7 percent of national income. About 30 percent of Europeans are personally involved in development cooperation by donating time or money. This reflects the strong ethical value basis for European development aid that transcends economic cycles.

The emerging economies of the G-20 are also strongly in favor of development cooperation and have rapidly growing international programs. South-South cooperation is one of the most exciting new developments in the international aid architecture.

Thus, there seems to be substantial evidence that the public in G-20 countries strongly care about and support development cooperation and believe that cooperative international programs are the best way of going about this.

Tangible Results on Development Can be Achieved

The G-20 can help to improve development cooperation. At the aggregate level, it would be useful for the G-20 to understand the implications of their collective policies on growth and poverty reduction, based on an analysis by the World Bank and macro scenarios of the IMF.

The G-20 should adopt a menu of important development topics with interventions that are ready for discussion now, including:

Infrastructure: A G-20 initiative, building on regional studies, could provide a systematic review of country and cross-border infrastructural needs (such as the World Bank maps highlighting the requirements to complete effective infrastructure networks in Africa) and promote new forms of public-private partnerships to generate the resources required. The G-20 could also encourage international financial institutions to review the concept of

“fiscal space” to identify where there may be room for greater public sector infrastructure spending, especially in countries with access to capital.

Human Resource Development: Current international initiatives emphasize access to schooling rather than quality. Access is improving, and progress has been good on achieving the MDG on primary school completion and on gender parity in education. But learning levels are low: 94 percent of grade 2 students in Mali cannot read a single word, and half of grade 3 students in Uganda also fail this simple test. The need for international and national action on improving education quality is fundamental for balanced global growth.

It may be appropriate for leaders to consider a new *Global Learn to Earn* initiative in Seoul. Many G-20 members (including developing countries) already support education. Several have participated in Early Grade Reading Assessments and can share how to use such tools. These efforts call for the G-20 to collaborate with other national governments.

Trade: Several G-20 members have already adopted duty-free, quota-free access for least-developed countries. Aid for trade is another area where the G-20 can help, providing the soft and hard infrastructure necessary to facilitate the movement of goods from factories and farms to ports and to help countries link to global and regional supply chains. The G-20 should be cautious not to substitute its own deliberations on trade from the formal negotiation process taking place under the Doha Development Round.

Private Investment and Job Creation: Promoting cross-border investment, and the application of science and technology toward development issues, will lead to more jobs in recipient countries, but needs to be done in a prudent fashion. There is a danger of a “race to the bottom” as countries seek to ease the cost of doing business. A G-20 understanding of the cost/benefit of regulation in different environments could help countries compete for investment in a healthy way.

Finance for Development: The rules for financial stability and new financial regulation have been developed by the Financial Stability Board without significant developing country representation. Several global issues remain unresolved: the desirability of some form of Tobin tax or other innovative financing modalities; the quantity and quality of official development assistance (ODA) in an environment of weak fiscal balances; and possibilities for leveraging ODA through public-private partnerships. Already the G-20 has formed expert working groups to develop proposals relevant for developing countries on inclusive and innovative finance, including finance for small and medium enterprises.

Food and Energy Security: Food and energy price spikes have been severe and resulted in significant development setbacks in recent years; but many international institutions are not permitted to use market-based hedging mechanisms to reduce the vulnerability of their operations. For example, the World Food Program currently buys all its food on spot markets, but its needs are greatest when food prices rise sharply. The new Global Agricultural and Food Security Program, set up under G-20 auspices, provides a number of options for innovative finance and new public-private partnerships to support country-led programs.

Governance: Stronger institutions that reduce the scope for corruption and assistance on tax reform to increase domestic resources for development can also be addressed through collective action by the G-20. Tax avoidance and illegal capital flight

cost developing countries billions of dollars each year, with transfer pricing a particularly troublesome practice. Programs like the Stolen Assets Recovery initiative require global collaboration to deny safe havens for stolen assets.

Knowledge Sharing and Learning: The G-20 should indicate its support for the agenda-setting work of the Busan High-Level Forum on Aid Effectiveness in 2011. High on the agenda is improving aid-recipient country ownership of the development process. But one cannot own what one does not know. At a minimum, G-20 countries should commit to becoming more transparent about their development engagements.

The factors above are indicative of a menu-driven approach to the G-20 development agenda. The G-20 should agree on such a menu and review progress and the need for action before each meeting. The idea of a menu approach is to adopt a limited set of topics to be followed over several meetings to maintain continuity and focus, and avoid leaping from topic to topic. Not all topics will require leaders' input and discussion, but leaders should be alerted on the progress of each topic and invited to discuss options when expert groups have determined that additional action is required.

A serious approach to development provides the best possibility for a "win" for the Seoul Summit—an agenda that will resonate with the G-20 public and yield tangible results when programs are implemented. The G-20 badly needs such a cause to overcome its growing credibility and legitimacy deficits.