IMF Reforms Bode Well for the G-20 Seoul Summit, But More Tangible Gains Are Needed

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The historical agreement to reform the "voice and vote," and subsequently the governance structure, of the IMF at the recent meeting of the G-20 finance ministers will satisfy leaders at the forthcoming G-20 Seoul Summit. There was great concern—until this agreement was announced—that the divergences among members, which had emerged at the Toronto Summit, on almost all the critical issues facing the G-20 would only deepen and widen at Seoul. This would have surely put into question the very future of the G-20. The crucial breakthrough of IMF reforms could not have come without the efforts of the Korean hosts, who have spared no efforts to ensure the success of the Seoul Summit. They have not only worked tirelessly since April with their official counterparts but also with think tanks around the world in an attempt to come up with new initiatives and ideas and to generate an intellectual climate in support of an effective G-20. Clearly, the Koreans have accepted the primacy of the G-20 as a global forum for economic and financial issues; and let us hope that France, who takes over the presidency in November, will continue with this trend. France should not downplay the importance of the G-20 in favor of the G8. The two summits should be independent of each other.

Agreement on the reform of IMF's quotas and board composition could allow for open discussion on achieving balanced global economic growth. The key to achieving this is for the concerned countries (China, Germany, Taiwan and Singapore, as major surplus economies; and the U.S. as a major deficit economy) to accept their respective responsibilities and implement measures to correct the imbalances that currently characterize their economies. This would not be possible in a bilateral context, as such pressures are either politically unacceptable or seen as a result of divergent analytical understandings of country specific situations, which are used to justify unilaterally adopted policies. But the IMF, with its credibility restored, could make these policy recommendations on the basis of objective and technically-sound analysis undertaken as part of the mutual assessment process for which it has been mandated by the G-20 leaders. The multilateral framework, in which these recommendations will be made, will avoid the politically sensitive loss-of-face for individual governments. It will also reassure them that these recommendations are not aimed at benefiting any particular country at the cost of those which are expected to implement the required policy measures.

To achieve this positive outcome, however, the IMF will have to conduct its mutual assessment process, for which it was mandated at the Pittsburgh Summit, on a country-specific basis. The present practice, despite the mandate to undertake country-specific reviews, is of undertaking the assessment for "a category of economies that includes a group of countries." This does not serve much purpose.[1] Policy recommendations, that are relevant and effective, have to be made on the basis of county-specific diagnosis and implemented by individual governments. The IMF should now undertake these country-specific reviews and

[1] For example, there are at least 17 major economies that have a current account surplus of higher than 3 percent of the GDP, which represents a significant macroeconomic imbalance. The group includes economies as diverse as Saudi Arabia, Russia, Taiwan, Germany and China. Policy measures cannot be recommended for such a diverse group of countries.

submit its findings and recommendations to the G-20. Member countries will then find it more difficult to continue with unilateral policies when faced with findings that have multilateral support. This could represent significant progress as all G-20 members, without exception, will be subject to these assessments and required to implement policy measures to redress any imbalances. If such an agreement for undertaking country-specific mutual assessment is reached in Seoul, the IMF could initiate the review process of the four or five economies with the largest imbalances and present its findings and recommendations at the Paris Summit. We can be sure that such an announcement itself will see much greater stability and restoration of confidence in global markets.

Also, let us hope that the next step in IMF reform—selection of its managing director and senior management on the basis of a transparent merit-based process—will also be implemented sooner rather than later. This should of course be applicable to other multilateral organizations like the World Bank and regional development banks, each of which today has some kind of an opaque quota system in operation.

The introduction of development issues in the G-20 agenda has been pushed hard by the Korean hosts. This faces the risk of overburdening the forum with additional agenda items before it has demonstrated its utility and effectiveness by achieving tangible gains. Perhaps the agreement to reform the IMF provides the forum with sufficient resilience and wherewithal to take on development issues as well. There is a danger that the development agenda being suggested for adoption by the G-20 becomes too large and precludes effective follow up or implementation. It is being suggested that the G-20 oversees practically the entire range of development activities in developing economies.[2] This will include the building of physical infrastructure, human resource development, poverty alleviation measures, raising agriculture productivity, greater effectiveness of development aid, better management of water resources, labor standards and employment issues, and adoption of measures for mitigation of climate change impacts. This is far too ambitious and impractical an agenda for a summit-level forum. Moreover, this completely duplicates the mandates of existing multilateral organizations like the World Bank, regional development banks, and U.N. agencies and organizations.[3]

There are, however, three development issues that the G-20 could be effective in managing. First, the G-20 could take up the issue of global aid architecture and adoption of globally accepted norms for channeling aid flows by old and new donors. This is distinct from the issue of getting the donor countries (it may be noted that China, Brazil, India and South Africa do not like to be included in the category of donor countries although they have substantial aid programs directed toward less developed economies) to agree to achieve the long-established target of committing at least 0.7 percent if not the originally agreed target of 1 percent of their GDP toward development aid. Presently, the issues related to official development aid, such as its quantum, design and direction are overseen by the OECD Development Assistance Committee (DAC), which has tried through the Paris Declaration and the Accra Agenda for Action to devise some global benchmarks for donors. However, large emerging economies like Brazil, China, India and Turkey have emerged as major donors but are not party to the DAC initiatives as they are not OECD members. This prevents effective coordination and in some cases could work against

[2] Dr. Il SaKong Chairman, Presidential Committee for the *G-20* Summit, Republic of Korea, *Opening Remarks* World Bank - Korea High-Level Conference on Post-Crisis Growth and Development, June 3-4, 2010, Busan, and Overseas Development Institute , *A Development Charter For the G-20, London, May 2010.* www.odi.org.uk/odi-on/financial-crisis/default.asp, accessed on 3 July.

[3] It is in fact rather surprising to find the World Bank and regional development banks supporting such an initiative for the G-20 to include the entire gamut of development issues on its agenda as this would simply duplicate the functions of their own respective board of governors where all these countries are represented.

implementation of desirable sanctions against truant governments. On the other hand, nearly all existing DAC members (save perhaps Sweden and Japan) are in violation of their own pledge to allocate 1 percent of their GDP for development aid. There is apparently insufficient peer pressure within the DAC to hold them to their commitment. Such an issue where the global community would benefit from greater coordination between emerging and advanced economies, and which require a degree of name and shame and accountability, would be ideally suited for adoption by the G-20.

Second, the G-20 must take up the issue of developing new norms for technology transfer that are less onerous for the least-developed economies. This can focus on facilitating the transfer of "green technologies" across the entire spectrum of goods and services. The issue of access to necessary technologies and now green technologies has long divided the global community in to "us and them" or between "owners and users." These divisions are especially harmful for technologies needed to overcome deleterious consequences of extreme poverty and address climate change issues. As a start, it could be agreed that all technologies developed with support from the public exchequer in any country that is a signatory to the U.N. Framework Agreement on Climate Change will be transferred either free or with minimal charges to other countries. Having been supported by public sector resources and not private finance, this will not distort the incentive structures for undertaking new research in other fields of inquiry.

Third, it is becoming increasingly clear that the existing asymmetry between near-complete freedom and flexibility for movement of capital across national borders, and highly-restricted movement of migrants across the same borders, is no longer tenable if globalization is to succeed and deliver on its promise of convergent growth. In a number of studies, restrictions on labor mobility, in contrast to the free flow of capital, across borders have been cited as a major reason for growing income inequalities. As Rodrik says, "economists have remained excessively tolerant of the political realities that underpin the highly restrictive regime of international labor mobility…".[4] The argument against labor mobility across national borders is based on the rather out-dated notion of maintaining a degree of social and cultural homogeneity in a world that is increasingly a global village. We cannot expect to receive the full benefits of globalization if two major factors of production, namely technology and human resources, suffer from restricted mobility. The G-20 will do well to take on these important and admittedly difficult development issues as this will greatly enhance its credibility. It will also start the process of eliminating the asymmetry that currently exists between advanced and emerging economy members of the G-20.

[4] Please see, Rodrik, Dani. 2002. "Feasible Globalizations." NBER Working Paper No. w9129.