

d.i.e

Deutsches Institut für
Entwicklungspolitik



German Development
Institute

The G20 makes development policy

By Dr. Peter Wolff and Dr. Thomas Fues,
*German Development Institute /
Deutsches Institut für Entwicklungspolitik (DIE)*

The Current Column

of 18 October 2010

The G20 makes development policy

Bonn, 18 October 2010. The G20 has recently set up a working group on development and will adopt a comprehensive development agenda at the November Summit in Seoul. It might come as a surprise that the G20, which was indeed set up to manage the way out of the world financial and economic crisis at the level of the heads of state, now wishes to address questions which are not directly relevant for crisis management.

Could this perhaps be an evasion reaction because it has failed to achieve the goal to reform the global financial system in the two years since the height of the crisis? The G20 has managed to avoid a global economic meltdown in the first few months after the Lehman collapse in September 2008 through coordinated policies and thus contributed to having normalized global economic growth again since 2010, which is primarily driven by the newly industrializing countries. However, the progress made in the tasks it has set itself to restructure the world economy has hardly been exhilarating. The Annual Meeting of the IMF and the World Bank which ended a week ago made it quite glaringly obvious how far the leading economic nations are from a joint approach to correcting the global economic imbalances and how strongly the economic policy is again oriented to short-sighted national interests.

Is a currency war looming?

A currency war is looming, possibly a trade war; the tone in the dispute with China has become sharper. The world currency system, which is still based on the US dollar, is increasingly being called into question after the US central bank has made it unmistakably clear that it will open the monetary policy sluice gates even further in order to prevent a deflation in the USA whatever it costs the other participants in the world economy. China is acting similarly uncompromisingly and is keeping its currency undervalued while the newly industrializing countries and the Eurozone have to accept massive capital inflows and a revaluation of their currencies. These fundamental global economic problems which are affecting everybody, including the developing countries, will inevitably have to take centre stage in Seoul.

Moreover, a decision on the reform of the IMF and the World Bank is imminent. The Europeans who

for a long time have blocked a change in the weighting of votes in the Executive Board in collaboration with the USA, are moving forward and are now prepared – if they can agree among themselves – to give up seats on the Executive Board in favour of the newly industrializing countries. After the USA were sheared away from the transatlantic solidarity and called on the Europeans to give up seats, they received the tit-for-tat response and are expected, recently also from the point of view of the Europeans, to forgo their right of veto on the Board – an old demand of the developing countries.

Development policy as a new field of activity of the G20

Why should the G20 now also debate about a development policy agenda? There are essentially two reasons for this. The first has to do with the legitimation deficit of the G20: If the G20 is also to be accepted as a global economics decision-making body by the “remaining” 172 countries – mainly developing countries, it will also have to take into account their interests. This is above all also a concern of the newly industrializing countries in the G20, which have initially predominantly looked after their own interests. Thus, for example, the largest part of the additional crisis-induced financial resources of the IMF and the World Bank has flowed to the newly industrializing countries in the G20 and not to the poorer developing countries.

The second reason has to do with the growing weight of the emerging and the developing countries in the world economy: the “strong, balanced and sustainable growth” striven for by the G20 can only be reached in the long-term if the developing countries can continue to catch up with the wealthier regions. This is where the greatest growth potentials lie and where it will be decided whether the growth will be sustainable, i.e. low in emissions and efficient on resources.

It is thus the field of development policy in which the G20 wishes to prove itself as an actor for greater global wellbeing. The danger here is that it is acting in competition with other development policy actors, above all also with the UN system and other multilateral institutions, and is more likely to contribute to the institutional fragmen-

tation in this field if it applies new well-meaning development programmes, underpinned by doubtful financial commitments.

Political initiatives are required, not new development programs

It would be much more important for the G20 to assume a leadership role in the design of integrated solution packages for development problems and leave the implementation to the specialized institutions, or to be precise, clearly define the mandates of the frequently insufficiently collaborative institutions. Thus, for example, in the area of food security, it is also a matter of incorporating the G20 members' own protectionist policies into a solution package; as well as the climate and environmental policy dimension, in favour of the natural factors relevant to the preservation and improvement of agricultural production (soil fertility, biodiversity, reversal of the desertification trend, forest conservation).

A resolute trade policy step in favour of a free access of the poorest countries to the markets of the advanced and emerging countries would be a political sign of high symbolic power, even when a conclusion of the Doha Trade Round appears out of sight for the time being owing to the divergences of interests between advanced and emerging countries.

In the area of raw materials, the most important

economic sector in many developing countries, likewise comprehensive approaches are required: it needs a regulation framework for international raw materials companies, regardless whether they stem from Europe, USA, China or Brazil, with corresponding labour and environmental standards, with transparency guidelines for the financial flows that are associated with these, as well as agreements to halt capital flight and tax evasion.

These are the fields which are really important for the developing countries; and these are the themes where the G20 has the power and the scope for action in order actually to get something done. In these fields, the emerging countries also have to prove that this is about more than the pursuit of their own interests in the G20. The G20 was created to reform the world economy. It can develop into a platform for global public policy with a long-term perspective, if it also decisively improves the conditions for poorer developing countries in the world economy and if it finds a way to involve the developing countries – through the UN system and through regional participation mechanisms – in dialogue and decision-making processes.

On this topic, in the run-up to the G20 Summit in Seoul an electronic DIE publication has been published: "G20 and global development: How can the new summit architecture promote pro-poor growth and sustainability?".



Dr. Peter Wolff

*German Development Institute /
Deutsches Institut für
Entwicklungspolitik (DIE)*



Dr. Thomas Fues

*German Development Institute /
Deutsches Institut für
Entwicklungspolitik (DIE)*