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After the G-20 Summit: What Prospects for Global Development?

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In the run-up to the Group of 20 (G-20) Summit that was held in London on 2 April 2009, many institutions (including governments, development organizations, NGOs and academics) identified issues and made recommendations for consideration. In this article I examine a selection of these recommendations and I evaluate the extent to which the summit gave consideration to these. I then try to answer two questions. First, what are the implications for global development? Second, with the UN Conference on the financial crisis approaching, what should be done about the many issues and recommendations that the G-20 could not, or would not, consider?

Background

It is one week after the heads of the (G-20) met in London to set an agenda for reviving a world economy racked by financial crisis. In present circumstances, one week is a long time. During this week, perhaps as much as one million additional people could have fallen into extreme poverty. To put it in perspective, this is equivalent to almost two cities the size of Helsinki succumbing to extreme poverty every week. This rough example is based on the World Bank's forecast that the number of extremely poor people in the world, i.e. those earning less than US$ 2 per day, will increase by up to 53 million during 2009. The summit itself took place just days after the World Bank released a forecast update of its Global Economic Prospects for 2009, serving as a reminder to summit participants that the present economic crisis is 'one of the sharpest global economic contractions in modern history', and forecasting that world GDP may contract by 1.7 per cent in 2009. It also estimated that the volume of world trade would decline by about 6.1 per cent during the year. These declines are unprecedented in recent history and indicate the urgent and concerted effort is now required for recovery.

In particular, the crisis is by now having serious ramifications for developing countries. While many developing countries have managed so far to avoid recession, growth expectations for 2009 have been revised significantly downward. In the case of sub-Saharan Africa, the world's poorest region, growth forecasts for 2009 have been revised downwards to 2.4 per cent - less than half of the 4.9 per cent growth achieved in 2008. Joblessness, poverty, malnutrition, infant mortality and even conflict and political instability are now widely expected to increase, putting progress towards the millennium development goals (MDGs) back years in many countries.

It is therefore understandable that high hopes were placed in the G-20 summit, even though this is an unrepresentative, rather ad hoc group of countries, with no permanent secretariat, a rather poor track record in its short existence, and an uncertain future. Given that the G-20 is some improvement on the G-8, and given that it contains about 70 per cent of the world's population producing around 85 per cent of global GDP, the hope was apparent that if the G-20 countries can get their act together and at least start a process which could revitalize growth in their economies, it would also benefit the more than 170 countries that are not included in the summit.

Thus, in the run-up to the London meeting we saw an unprecedented number of recommendations forwarded to the summit. From governments to NGOs, academics, think-tanks and international development organizations, countless wish lists were drawn up of what the G-20 summit should do, or not do, even though it was clear from the outset that a meeting of a few hours would never be able to even remotely consider even a proportion of these.

In the remainder of this section I examine the recommendations from a representative set of institutions, such as the UK government (the host), the Africa Progress Panel, the German Development Institute, the Overseas Development Institute, the Committee of Ten, the Work Foundation, the Brookings Institution and Oxfam. Scrutinizing their wish lists, one is struck by two things: the ambition of the calls on the G-20, and the substantial overlap in recommendations. The first perhaps signals that many of the ills in the world economy, even those not directly related to the immediate crisis, are now being pushed forward again for attention. The second may indicate that there is a growing consensus on what is wrong in the world economy, and what needs fixing, and that the present crisis is perhaps the opportunity to start doing so.

A Broad Agenda

Recommendations from the various institutions constitute a broad development agenda, and covers both short-term and long-term imperatives. Over the short-term, most recommendations went, it is necessary for the G-20 countries to follow through with expansionary fiscal and monetary policies, many of which began after the first meeting of the G-20 in November 2008. Many short-term recommendations also called for the fixing and stabilization of financial institutions, in particular: disposing of 'toxic' or 'impaired' assets' on banks' balance sheets; restoring inter-bank lending; improving financial regulation and transparency; harmonizing such regulation across member countries; and clamping down on tax havens. In addition, almost all institutions called on the G-20 to consider the plight of developing countries, in particular the poorest African countries, and to retain their commitment to official development assistance (ODA) and to resists further trade protectionism. There seems to be an appreciation, which perhaps needs to be emphasized even more, that most developing countries will not be able to afford significant fiscal stimuli packages without significant external aid, and that restoring the demand for exports from

developing countries remains essential to boosting growth. Thus, and here some innovative proposals have been made, it has been recommended that G-20 countries earmark a percentage of their stimulus packages for developing countries. The president of the World Bank called on developed countries to provide 0.7 per cent of their stimulus packages to a vulnerability fund to assist the most fragile states.

Over the longer term, most recommendations made to the G-20 stressed the imperative of reforming the international 'financial architecture'. In particular the Bretton Woods institutions were singled out in all recommendations. Here, proposals ranged from disbanding the institutions and creating new ones from scratch, to proposals calling for reforms, in particular providing the IMF (and World Bank) with greater resources, to changing the conditionality and ease of access to finance, to making these institutions more inclusive, transparent and flexible. A few also called for the fundamental causes of the financial crisis to be addressed, namely the huge imbalances between exporting countries (such as China) and importing countries (such as the US). Some pointed to the recommendations of the UN Commission of Experts on International Monetary Financial Reform which identified the shortcomings of using the US dollar as reserve currency (an outcome of the Bretton Woods agreement) and proposed (even when recognizing that this was unlikely to happen) that the G-20 consider alternative arrangements.

There were even some recommendations made before the summit that the G-20, if it continues to set the international economic agenda, be itself reformed. For instance, the German Development Institute issued a statement saying that the 'legitimacy of the G-20 will particularly depend on its interaction with the United Nations because the G-20 suffers from the fact that over 170 nation states are not represented', and proposing that the secretariat of a future G-20 be hosted by 'an important UN agency'. Earlier proposals for an Economic Security Council at the UN have also remade , and Kofi Annan, writing in the foreword to the Africa Progress Panel's recommendations issued prior to the G-20 summit, stated that longer-term reform of the global economy need to be 'underpinned by institutions with universal reach such as the UN whose legitimacy is beyond question'.

The Summit Agreements

With rich and poor economies across the world nose diving, the G-20 summit in London was widely seen as an opportunity to revisit the broad international development agenda. Indeed, as was shown in the previous section, most recommendations made by various institutions and countries in the run-up to the summit were concerned not so much with finding and fixing impaired assets on banks' balance sheets and restoring inter-bank lending (the proximate cause of the crisis), but on addressing the impact on poorer countries, and on addressing the longer-term structural defects in the world economy. Many of these issues have been on the international development agenda for decades now.

Now that the summit has come and gone, did the G-20 live up to all those expectations? Have the prospects for global development improved as a result of its outcomes?

The G-20 summit has certainly started a process that has been favorably received in principle by a number of observers – and many have expressed the hope that this process will lead to more substantive outcomes. For example, South Africa's representative (the only African G-20 member), Trevor Manuel is reported to have indicated his satisfaction with the London outcome. Oxfam International wrote: 'Our overall analysis is that the Summit itself could prove an historic moment in a critical year for the twin crises of climate change and economic meltdown'.

Thus, despite the overwhelming agenda, even greater expectations, and accompanying protests, it would seem that the G-20 summit did succeed in keeping some optimism alive. There are at least two reasons for the generally positive reception of the summit outcome. The first is that the G-20's intentions or pledges seem to be fairly (but far from perfectly) consistent with at least some of the prior recommendations of a wide number of groupings. The second is that concrete resources were identified to support developing countries. Whether the G-20 will stick to their pledged and move towards meeting all of them, and whether the resources to be allocated to boost the world economy will have the desired effect over the short term, remains to be seen.

In terms of broad consistency with prior recommendations, in the 'Global Plan for Recovery and Reform' issued at the conclusion of the summit, the G-20 countries have pledged to 'do whatever is necessary to:

- Restore confidence, growth and jobs
- Repair the financial system to restore lending
- Strengthen financial regulation to rebuild trust
- Fund and reform international financial institutions to overcome this crisis and prevent future ones
- Promote global trade and investment and reject protectionism, to underpin prosperity
- Build an inclusive, green and sustainable recovery.'

This pledge is predominantly focused at restoring growth over the short-term. Although it identifies reform of financial institutions and sustainable growth as important, this is not where the gist of the agreement lies. Indeed, compared to recommendations made to the G-20 before the summit, it is clear that the G-20 did not consider the fundamental causes of the crisis, and is thus silent on the role of trade imbalances, the role of the US dollar, and the need for an inclusive forum to drive these issues.
As far as concrete resources for reviving growth is concerned, the G-20 has reached agreement to provide or channel at least US$ 1.1 trillion towards global recovery, of which an additional US$ 500 billion will go towards trebling the resources of the IMF (to the level

of US$ 750 billion). Of this package, US$50 billion has been set aside specifically for low-income countries. The G-20 nations also reaffirmed their commitment to ODA.

In addition to providing for further stimulus to the global economy and specific financial support to developing countries, the G-20 also agreed on measures to strengthen financial institutions. Here, the approach has been less to rid the system of impaired assets, and more towards establishing better financial regulation so as to restore confidence and prevent future crises. Central in the G-20's agreement is the establishment of a new Financial Stability Board (FSB), the extension of regulation and oversight and an undertaking to take action against 'non-cooperative jurisdictions' such as tax havens.

Evaluating the Summit Agreements

Despite the G-20's rhetoric, which in practice may amount to very little concrete action, and the agreement on an economic stimulus package, the essential focus of the G-20 is clearly short-term. While long-term concerns about an unequal world were noted, and the need for reform of the Bretton Woods institutions acknowledged, little concrete agreements were made or significant undertakings given.

From this point of view, the guarded optimism after the summit may be short-lived. Two reasons for concern are: (a) the impact and success of fiscal stimulus measures and (b) that the short-term focus may involve a trade-off with the need for longer-term reform of the international financial system.

Consider first the possibility that fiscal stimuli may have limited impact. I already mentioned that the scope for fiscal stimuli in developing countries is limited. As to the extent to which developing countries may benefit from such stimuli in the developed economies and G-20 countries, there are doubts. There is widespread skepticism about the desirability and effectiveness of Washington's US$ 800 billion fiscal stimulus, and the same may apply to fiscal stimulus initiatives across the G-20. For instance Jeffrey Sachs has argued that fiscal stimuli may amount to a knee-jerk reaction, stating that 'we should stop panicking…panics end badly, even panics on policy; more moderate policies will be safer in the medium term...there is little reason to fear a decade of stagnation, much less a depression'. Others have expressed similar doubt about the effectiveness of the US stimulus, pointing to the fact that whereas the federal government expands spending, many state governments are undergoing fiscal contraction. Many have also pointed out that given debt levels and overspending, that the US may be more in need of increasing saving and spending less.

Not only may existing fiscal stimuli have limited impact on both rich and poor countries, but the amounts agreed on for developing countries, although substantial, may paradoxically in time come to be seen to be inadequate and inequitable. Many have already remarked on the fact that huge amounts of money have been found at short notice to bail out banks, but that money to bail out the world's bottom billion can never be mobilized. Contrast for instance the $ 50 billion agreed on for developing countries at the summit with the

estimated $ 8.4 trillion for bailing out banks. As Oxfam recently remarked, the latter amount is sufficient to end extreme poverty worldwide for 50 years.

The case has also been made that the problems facing the financial sector first need to be solved, specifically that the toxic assets on banks balance sheets be removed, for a fiscal stimulus to have a significant impact. This process is still ongoing and subject to great uncertainty and disagreement in the US – and is viewed with concern in many developing countries. As Kofi Annan recently wrote in this regard: '…the very way in which the developed world has responded to the crisis continues to worsen their situation by encouraging capital to flee to perceived safety'. This has also been referred to as 'financial protectionism', whereby the US, as issuer of the world's reserve currency, can pump sufficient money into its banking sector to guarantee its stability, thereby attracting funds from other countries without this ability. Indeed, two 'winners' of the crisis may very well be the US dollar and surviving US financial institutions – with the latter benefiting at the expense of US taxpayers. As Joseph Stiglitz recently wrote in an op-ed piece in the New York Times about the US plan to deal with 'toxic assets': 'What the Obama administration is doing is far worse than nationalization: it is ersatz capitalism, the privatizing of gains and the socializing of losses. It is a "partnership" in which one partner robs the other. And such partnerships — with the private sector in control — have perverse incentives, worse even than the ones that got us into the mess.' It may be no surprise that a recent survey in the US found that 51 per cent of Americans want to see an end to bailout money for banks.

Further, the G-20 largely ignored any substantial agreements on long-term changes to the global financial system. Their recognition of the need to reform the IMF and World Bank has been noted, and in this regard perhaps the most significant gesture has been the added US$ 500 billion earmarked for the IMF. But herein may lie a problem, in that the short-term desire to get funding to developing countries as quickly as possible may perpetuate the very financial system developing countries have been objecting to. Indeed, one of the other 'winners' of the current financial crisis has been the IMF, which will see its resources trebled and its influence over developing and other countries potentially expand. Thus by focusing on the short-term need to address the need for liquidity of economies (at the moment particularly in Eastern Europe) the G-20 may make it more difficult in future to reform a stronger IMF. Recently, Mark Weisbrot also asked in the Guardian whether this expansion of IMF funding (before first reforming the institution) has been a mistake, pointing out that: 'about 10 years ago, in the last major international economic crisis – which began in Asia – the US led a large funding increase for the IMF, and the results were disastrous.' In retrospect, one might not be blamed for seeing the G-20's response following the limited repertoire of the US government in dealing when dealing with economic crises – in a superficial level without addressing the deep, fundamental causes of these crises. For instance, as has been pointed out, after the Asian crisis the response was then, as now, to increase funding to the IMF; after the dot-com bubble burst the response was then, as now, expansionary monetary and fiscal policy. Perhaps, given the immediacy of the crisis decisive

action which will have a quick impact, rather than no action is needed, and one might argue that the G-20 is not the time or place to deal with deeper, structural issues. While this may be true, one should nevertheless be careful that in omitting these issues from the agenda now, one might find later that the response may in fact have weakened prospects for more long-term, equitable development.

The Road Ahead: Towards the UN Conference

In less than two months the United Nations will host a Conference on the World Economic and Financial Crisis and its Impact on Development in New York. It may be an important opportunity to push for progress, precisely in those areas of international development where the G-20 failed: to start a process addressing the core problems around imbalances in the world economy; to find agreement on moves towards a more appropriate reserve currency; the possible creation of an Economic Security Council; and to drive the process of at least making the IMF and World Bank more inclusive and transparent, amongst others. Perhaps also it is an opportunity for the UN to find a working relationship with the G-20, in the interest of better aligning short-term recovery initiatives with the imperative of longer-term change.

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