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TOWARD A NEW DEVELOPMENT AGENDA

In this issue

Voices oft he South on Globalization is a monthly newsletter intended to inspire a meaningful North-South Dialogue by raising awareness for global interdependences and by offering a forum for voices from the South in the globalization debate. Each edition presents short analyses or commentaries from a Southern perspective on one particular issue of the globalization process.

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Preparing for Seoul

Beyond the headlines about the agreement among most developed G20 countries on growth-friendly plans to reduce deficits, though at different speeds in different countries, the Toronto Summit Declaration contains what could become a new development agenda, focusing on support for growth in low income countries (LICs), writes Dirk Willem te Velde, a distinguished researcher at the Overseas Development Institute (ODI) in London.

This means that there is much work to do before the G-20 summit in Seoul in November. India's Prime Minister Manmohan Singh has emphasized this as well.

Returning from the G20 Summit in Toronto on June 29, he said the idea was to make G20 the main global forum on economy while G8 will focus on security issues. "As far as G20 is concerned, it has been agreed that this will be the premier forum for discussion of the international economic issues," he said.

"I talked to the Canadian Prime Minister (Stephen Harper) who said hereafter G8 will probably deal with security issues much more vigorously than it has been doing thus far in the past," Singh added. For India, this means greater clout on international economic matters as it has become an important constituent of G20, which comprises 19 of the world's largest and emerging economies, besides EU.

Asked to comment about the view that the Toronto G20 Summit had achieved little, Singh said the meeting was in some ways a preparation for the next one in Seoul in November. "I think the Summit has helped in charting out the agenda and action points for the summit which will be firmed up in Seoul," he said, adding there was, nevertheless, an agreement that the recovery so far was fragile.

"What is needed is a calibrated attempt at fiscal consolidation rather than later a one-size-fits-all sort of action. In that way there is progress, even those countries which want to go ahead with fiscal consolidation, I think the caveat is that this must be done in a growth-friendly manner."

"My impression is that even those European countries that came out with targets at fiscal consolidation, they have been going about their business with due caution," the Indian prime minister said.

This, he noted, was a noteworthy outcome of the Toronto Summit, which played a useful role in clarifying what is the scope for fiscal consolidation and what manner the process should be found.

Besides India and the EU, the G20 members are the U.S., Canada, Russia, Britain, France, Germany, Italy, Japan, Argentina, Australia, Brazil, China, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea and Turkey.

Meeting on the sidelines of the Summit in Toronto, Singh and President Barack Obama were effusive in their praise for each other, with the U.S. President saying the Indian Prime Minister's extraordinary leadership had "helped us navigate through some very difficult times". Obama said: "I can tell you that here at G20, when the Prime Minister speaks, people listen," adding that this was because of Singh's deep knowledge of economic issues.

"As well as the fact that he understands that as India rises as a world power, not just a regional power, it also has enormous responsibilities to work with the rest of the world community around issues of peace and prosperity." ☑

South African and Saudi Perspectives

South Africa and Saudi Arabia -- both members of the G20 -- have featured different perspectives of the Toronto Summit President Jacob Zuma reiterated South Africa's long-held view and called for international financial institutions to be overhauled to give developing economies a greater say. Heavy weight Brazilian President Luiz Inacio Lula da Silva skipped the G20 summit to deal with the aftermath of severe flooding in northeastern Brazil that has killed 51 people.

The Business Day newspaper quoted Zuma saying it was time for the G20 leaders to take the initiative with regard to the reform of the International Monetary Fund (IMF).

"Our reform of the World Bank shows that the slow movement on IMF reform is not necessary. As leaders, we need to demonstrate political will by ensuring that the necessary compromises are reached for us to deliver on our Pittsburgh commitments."

Traditionally, developing countries complain about how global financial institutions are dominated by developed economies, and South Africa is no exception.

Moreover, in South Africa, the ruling party's leftist allies are critics of the economic policy advice offered by the IMF and World Bank, which these organizations claim is often aimed at cutting social spending, which in turn negatively affects development objectives in South Africa, the Business Day reported.

Zuma said failure to move regarding the IMF and other urgent reforms of the institutions endangered the "goodwill" earned through the effective action of the institutions in response to the global financial crisis. He pointed out that the IMF was a quota-based institution and that quotas determined the amount of resources that could be made available by the IMF.

"Our strongly held view is that quotas must shift to developing economies as their need for the IMF resources is higher. The shift must essentially be from developed countries to developing countries. We must ensure that no emerging and low-income countries lose quotas as a result of these reforms," he said.

An editorial in Middle East's leading English language daily Arab News said: UK Prime Minister David Cameron put the usual politician's spin on the G20 summit saying that it backed his cost-cutting budget. The editorial went on:

In reality, it is hardly likely that the world leaders in Toronto had the UK specifically in mind when they issued their final communiqué saying that the wealthiest economies need to halve their budget deficits by 2013. Nonetheless, Cameron has a point. The fact is that in stating the need for cuts, the G20 has gone along with the Europe's economic vision of fiscal prudence rather than President Barack Obama's, of continued government spending as a motor for growth.

The pretense that there was, in fact, a compromise between the two views is just further political spin. True, in also speaking of the need to try and support economic growth, the communiqué paid homage to Obama's aims -- but that was the limit of it. The reality is that he lost the argument in Toronto.

The US had lobbied hard against cuts, believing firmly that they could push the world back into a new recession. Before the

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summit, the American president wrote to European leaders telling them -- almost lecturing them -- that past cuts has done precisely that. US Treasury Secretary Timothy Geithner weighed in saying the Europeans had to focus on growth.

But the Europeans ignored Washington's pleas. They have put their own needs first -- understandable in the case of countries like the UK, which has been overspending for too long -- although even Germany, which has no budget deficit, insisted on sticking with fiscal prudence rather than spending for growth.

It does make sense. The Europeans need to restore public confidence, both domestic and foreign, in their national budgetary policies as a priority. Moreover, without that confidence, the euro and sterling will remain dangerously weak which will simply undermine any effort to stimulate the economy through investment; the credibility and sustainability of any spending plans will be constantly suspect.

Yet if Toronto has been a rebuff for Obama, he can draw some satisfaction from it -- specifically from the Chinese decision to allow their currency, the yuan, to float. Even before the 2008 depression, Washington had been trying to pressure Beijing into revaluing its currency.

All along the Chinese steadfastly refused to budge; just three months ago the difference appeared about to turn nasty when they threatened action following a letter from members of the US Congress accusing it of manipulating its currency to gain an unfair trade advantage.

Officially the decision to allow the yuan to float has nothing to do with the summit; the Chinese even flatly refused to allow any reference to it to be included in the final communiqué. But no one believes that the two are unconnected. The timing, less than a week before the summit, reinforces that view.

The move certainly demonstrates China's international responsibility. It is not in China's economic interest; it will make its exports less competitive. It is not just the US that will gain from that; so too will most other export economies.

As for Saudi Arabia -- the only Arab as well as only OPEC member of G20 -- the outcome was satisfactory. While keen to promote economic growth worldwide, economic stability is the priority. A euro or sterling crisis is bad news for everyone. Sound European budgetary behavior is an absolute necessity, concluded the editotial. ☑

China Stresses Need to Promote Global Economic Recovery

While addressing the fourth G20 summit in Toronto, Chinese President Hu Jintao laid out a three-point proposal for promoting a strong, sustainable and balanced global economic growth, calling for joint efforts of the international community for global economic recovery.

Hu said in his speech titled "Work in Unity for the Future" that the world economy is gradually recovering with the help of the concerted efforts of G20 members and the entire international community, Xinhua reported.

However, he warned that the recovery was infirmly established, unbalanced, and still facing "quite many uncertainties," such as the expanding sovereign debt crisis, drastic exchange rates fluctuations of major currencies and persistent volatility in the international financial markets.

Seeking to address these problems and materialize a strong and balanced growth worldwide, Hu laid out a three-point proposal.

"First, we need to turn the G20 from an effective mechanism to counter the international financial crisis to a premier platform for advancing international economic cooperation," said the Chinese president.

"The complex world economic situation makes it necessary for the G20 to play a guiding role. We need to take a longer-term perspective and shift the focus of the G20 from coordinating stimulus measures to coordinating growth, from addressing short-term contingencies to promoting long-term governance and from passive response to proactive planning," he said.

The Chinese leader said G20 nations should strengthen coordination of macroeconomic policies among them, support countries hit by the sovereign debt crisis in overcoming the current difficulties.

He also called for well managing the G20's relationship with other international organizations and multilateral mechanisms and ensuring that the G20 "plays a core role in promoting international economic cooperation and global economic governance."

Secondly, Hu said: "we need to accelerate the establishment of a new international financial order that is fair, equitable, inclusive and well-managed," calling for the establishment of an international financial system "that is good for the growth of the real economy."

Hu said the G20 members need to bring the shadow banking system under supervision and regulation and formulate globally consistent accounting rules. He also said the G20 nations need to enhance the IMF's capacity building and surveillance reform, and strengthen supervision over macroeconomic policies of various parties, particularly major reserve currency issuing economies.

Thirdly, the Chinese leader urged advancing "the building of an open and free global trading regime."

"We must take concrete actions to reject all forms of protectionism, and unequivocally advocate and support free trade," he said.

Calling for renewing commitment not to impose new restrictions on goods, investment and services, he said developed countries should promote international trade "with greater openness."

"It is important to address trade frictions appropriately through dialogue and consultation and under the principle of mutual benefit and common development," he stressed.

Hu emphasized the significance of strong and sustainable growth for the world economic development. "To ensure strong growth is the top priority in today's world economic development, to enable sustainable growth is our long-term objective."

The Chinese leader called upon other heads of state and government attending the G20 Summit to take proactive steps to ensure strong growth, make great efforts to develop the real economy, create jobs for the people and step up international cooperation in emerging industries.

"We should overcome difficulties in the course of progress and tackle challenges through growth," the Chinese president said, adding "We should strive for balanced growth, including balanced growth both among different parts and industries of a country and among different countries and regions."

But the Chinese leader warned that it would take a long and complex process to achieve strong, sustainable and balanced growth of the world economy.

"It cannot be done overnight. We must make persistent efforts to push forward this process. And in doing so, we must also take into account specific circumstances of industrial countries and respect their diverse development paths and models."

President Hu offered examples and experiences to back up the Chinese insight in coping with the ongoing global financial and economic slowdown.

"Since the outbreak of the international financial crisis, China has comprehensively implemented and continuously enriched and improved its package plan and other policy measures in response," he told G20 summiteers.

"As a result, the Chinese economy grew by 8.7 percent in 2009 and contributed its part to regional and global economic recovery. Since the start of 2010, the Chinese economy has maintained steady and relatively fast growth. In the first quarter, the economy grew by 11.9 percent." **(continued on page 4)**

President Hu said his country always values sustainable growth which is demonstrated by the country's effort to keep budget deficit under 3 percent of the GDP. China has been boosting domestic demands so as to better balance off the country's economic development and cope with the global economic slowdown.

"In 2009, while China's total exports in goods dropped by 16 percent, its retail sales (at home) were up by nearly 17 percent in real terms, fixed assets investment increased by about 30 percent, and current account surplus relative to the GDP fell to 6.1 percent," Hu cited telling figures.

Both the big drops in the country's trade surplus and the swift trend toward current account balance have been major signs of China's more balanced economic development.

However, Hu said the government and people of his country are "soberly aware" of the difficulties and challenges ahead, due to the large population, weak economic foundation, lack of balance in the development between urban and rural areas and serious environmental and resource constraints of the country.

The Chinese president promised to accelerate the transformation of his country's economic development pattern to implement the scientific outlook. Meanwhile, Hu said it is "imperative and incumbent" for the G20 to help developing countries achieve full development and narrow the development gap between the North and South.

Developing countries have been hit hard by the financial crisis and they find it a daunting task to overcome the difficulties caused by the crisis, Hu said.

"We should not neglect the development aspirations of other developing countries, which take up over 85 percent of countries in the world."

It was incumbent upon the G20 to provide stronger political drive, greater economic resources and better institutional guarantee for development, he added. Hu urged developed countries to honor in good faith their commitments on official development assistance, market opening, and debt reduction and cancellation.

He also called on the countries and international organizations to scale up financial and technological support for developing countries and help them build stronger capacity for self development.

"The World Bank, the IMF and other international financial institutions should use their resources to help, on a priority basis, developing countries, the least developed countries in particular," he stressed.

Since the outbreak of the international financial crisis, China has provided assistance to developing countries through multiple means and channels, Hu said.

"China will continue to offer assistance to other developing countries as its ability permits within the framework of South-South cooperation, and do its utmost to help other developing countries achieve development," said the president. On the sidelines of the G20 summit, President Hu on June 27 met new Japanese Prime Minister Naoto Kan on further advancing bilateral ties.

It was the first meeting between Hu and Kan since Kan became Japanese prime minister early June. Hu said leaders of the two countries should maintain close contact and help promote extensive dialogue and exchanges between the governments, political parties, parliaments and defense authorities of both countries. Hu said the two countries should expand trade and deepen economic cooperation so as to realize mutual benefits and win-win results for both sides.

He said the two countries should fully utilize the mechanism of the high-level economic dialogue to advance the growth of bilateral trade and economic cooperation in a stable way. The Chinese leader said the two countries should strengthen coordination and cooperation on regional and international affairs, and expand common interests.

Hu said the two sides should join hands in maintaining peace and stability in the Northeast Asia region and pushing forward regional cooperation and development of the East Asia region. They should also carry out dialogues, coordination and cooperation on the global challenges of international financial crisis and climate change.

Hu said the two countries should properly handle the sensitive issues between them, calling on both sides to proceed from the overall situation to handle these issues in a cautious, proper way and prevent them from affecting the stable growth of the bilateral relations.

Kan said the Japanese government attached great importance to the development of the Japan-China relations, adding that this is not only very important for both countries, but also of great significance to peace and development of Asia.

President Hu added China is ready to work with Japan to seize the current opportunity to push for the extensive growth of the mutually beneficial relationship of strategic importance on the basis of the four political documents signed by both sides.

For his part, Kan said his government will advance the Japan-China relations according to the principles and spirit of the four political documents.

Kan said the Japanese government is ready to work with China to push forward regional cooperation in East Asia and properly handle the problems arising in the development of the bilateral links.

The China-Japan relations have witnessed major progress in various fields and benefited the two sides significantly since the normalization of diplomatic ties 38 years ago.☑

Importance of Global Growth to Development

The World Bank assessed at the behest of G20 leaders in a report the outlook for developing countries and highlights policy areas for consideration by the G20 to enhance the collective impact of G20 policies on development and poverty reduction as part of the G20 Growth Framework and Mutual Assessment Process (MAP).

Key inputs into this report include the G20 submissions, the base case and alternative scenarios for the G20 developed by the IMF, the World Bank's own data and analysis, and inputs from other international organizations, such as the OECD and WTO. The report's analysis serves as one of the inputs under the MAP to help G20 policymakers identify policy options over the course of 2010. The main findings and messages of the Bank report can be framed under four themes.

Centrality of Global Growth to Development

Global growth is central to development. The most important thing that the G20 can do for development is to restore strong growth. As the recovery matures, the longer-term growth agenda should increasingly be at the center of G20 policy coordination, with a shift in focus from demand to supply stimulus—fiscal, financial, and structural reforms that enhance medium- to long-term potential growth. The upside scenario presented in a companion report by the IMF illustrates how collective action by the G20 along these lines can boost global growth with benefits for all. Actions on financing for development and trade discussed in the Bank report and summarized below would enhance the development impact of the upside scenario.

The crisis and recession in advanced economies significantly impacted developing countries. There is considerable heterogeneity across developing countries, but improvements in macroeconomic policies and progress on structural reforms helped them in general navigate the recent crisis with greater resilience than past crises. Nonetheless, the impact was significant. Growth in developing countries fell from an average of about 7 percent in the five years preceding the crisis to 1.6 percent in 2009. There will be an estimated 64 million more people living in extreme poverty (on less than $1.25/day) in 2010 than would have been the case without the crisis.

The base case outlook for developing countries, linked to the IMF's G20 base case scenario, is for growth recovering to about 6 percent in 2010, with a relatively strong recovery in the more dynamic emerging markets and a gradual recovery in other developing countries, including low-income countries. This scenario would still leave sizable output gaps in the medium term. Poverty would still be higher by 53 million people in 2015 compared to the pre-crisis path. The ground lost in progress toward the Millennium Development Goals would not be recovered. For example, 1.2 million more children under 5 might die between 2009 and 2015 than under the pre-crisis growth path.

The output and social losses could be still greater as the base case growth scenario might not be realized, as it is subject to important downside risks. Concerns about fiscal and debt sustainability in advanced economies have intensified with the developments in Greece. Fiscal strains have also increased in many developing countries, especially low-income countries, as they have used up the limited fiscal space they had in responding to the crisis and now face severe constraints in sustaining core social and infrastructure programs important for poverty reduction and growth.

The package of G20 fiscal and structural reforms envisioned in the IMF's upside scenario would help address current risks in the global economy and increase potential growth. We estimate that the resulting higher growth in the G20 economies would be associated with 2.4 percent higher GDP in developing countries by 2014 and 14 million fewer people living on less than $1.25/day (33 million fewer people on less than $2/day) than in the base case. Conversely, the Fund's downside scenario illustrates well the likely consequences of lack of action to address the risks. GDP in developing countries could be 3.6 percent lower by 2014 and poverty higher by 23 million people based on $1.25/day poverty line and 58 million higher based on $2/day poverty line than in the base case.

A Dynamic Force in Global Growth and Rebalancing

Growth in developing countries increasingly matters for global growth. Led by the fast-growing emerging markets, developing countries are now contributing about half of global growth. They are leading the recovery in world trade, with their import demand rising at twice the rate of that in high-income countries. Linkages among developing countries, or South-South linkages, also are becoming more important. South-South trade has risen to about one-third of global trade.

Developing countries offer abundant opportunities for high return/high growth potential investments, such as in critical infrastructure that removes bottlenecks to growth. Many, however, face a binding financing constraint. Promotion of growth in these countries through more support for investment that removes bottlenecks to their growth would be a global win-win. It would support their development and it would contribute to stronger growth at the global level and to the rebalancing of global growth by creating new markets and investment opportunities and more sources of growth in global demand.

Promotion of stronger, multipolar growth in developing countries should thus be seen as an important and integral element of the G-20 framework to achieve "strong, sustainable, and balanced growth" in the global economy. Rebalancing needs to look beyond a narrow focus on current account balances and macroeconomic policy adjustments to include structural rebalancing—and supporting multiple poles of growth is a key feature of that structural rebalancing.

Infrastructure investment and maintenance needs in developing countries amount to $900-plus billion annually. Actual spending is half that level. More financing is not the only answer; improvements in -- soft infrastructure -- in governance, regulation, cost recovery-- are as much part of the agenda, as are sustained investments in human capital such as health, nutrition, and education.

The potential to contribute to global growth and rebalancing is not limited to the rapidly growing emerging market growth poles. Better policies have improved growth performance and opportunities in many low-income countries, including in Sub-Saharan Africa (average growth of about 6 percent in the five years preceding the crisis). They offer markets for investment, not just destinations for aid.

In addition to financing, the G20 can be instrumental in promoting the sharing of development knowledge and support for capacity building in developing countries.

Financing for Development:
The crisis will have long-lasting implications for financial flows to developing countries. Some emerging markets are seeing a strong rebound in capital inflows, but most developing countries face the prospect of scarcer and costlier capital.

The rise in fiscal deficits and debt in advanced economies and concerns about crowding-out, tighter financial sector regulation, and a re-pricing of risk will all likely raise the cost of capital and limit developing countries' access to financing.

The tighter financial conditions could lower growth in developing countries by up to 0.7 percentage points annually over the next 5 to 7 years, and reduce potential output by up to 8 percent in the long run, compared with the pre-crisis trend. This baseline outlook is subject to further downside risks in view of the increased concerns about sovereign debt in advanced economies.

Even relatively small declines in growth can have significant effects on poverty. A 0.5 percentage point decline in developing country growth rate, say due to higher capital costs and lower investment, can mean about 80 million additional people in poverty ($2/day poverty line) in ten years.

With tighter capital markets, official flows to developing countries take on added importance, both in directly providing development finance and in leveraging private flows. The need for concessional finance has risen as fiscal space in low-income countries has come under pressure while social spending needs, including expansion of social safety nets for poor and vulnerable groups, have increased in the aftermath of the crisis.

These developments reinforce the need to ensure adequate ODA, achieve satisfactory replenishments of IDA and the African Development Fund, and follow through on MDB capital increases. They also point to the need to ensure more effective use of resources to achieve development outcomes.

The tighter outlook for private capital flows and the fiscal stress in donor countries imply the need for supplementing traditional financing with innovative forms of finance.

These include, for example: risk-mitigation guarantees; sovereign wealth fund investments (e.g., recent investments in an IFC equity fund); innovations such as the IFFIm and AMCs that support global public goods in health and strengthening of health systems; public-private partnerships in development-linked global programs, such as for food security; carbon finance; and South-South investments.

The scale of resource needs calls for both a renewed commitment by G20 members to key global programs and renewed vigor and creativity in exploiting the potential of innovative approaches that leverage private capital.

The financing outlook also implies the need for stronger domestic resource mobilization by developing countries, including continued efforts to improve public resource management and the climate for private investment.

There is a need to strengthen developing countries' own financial systems. Some aspects of financial sector development, such as SME finance, are already the subject of attention in G20 under the theme of inclusive finance.

This is important, but there is also a need to develop financial systems more broadly. Expanded technical and capacity building assistance to financial sector reforms in developing countries can be a key area for G20 collective action.

It is important to ensure that financial system regulatory reforms in advanced economies do not have unintended adverse effects on financial flows to developing countries or their financial sector management. Vigilance is needed to avoid financial protectionism.

Open Trade: Engine of Growth and Facilitator of Rebalancing
G20 leaders can boost market confidence by renewing their commitment to refrain from protectionist measures. An even stronger signal would be a collective pledge to unwind the protectionist measures that have been put in place since the onset of the crisis.

Trade rules matter. Areas that are not subject to multilateral discipline or where the coverage is unclear or limited are the ones that have seen more restrictive actions. Strengthening multilateral trade disciplines and moving ahead with the Doha Round therefore are important.

To improve poor countries' market access, the G20 could consider extending 100 percent duty-free and quota-free access to the Least Developed Countries with liberal rules of origin. Improved market access for poor countries needs to be complemented with a strengthening of trade facilitation and aid-for-trade programs to enhance these countries' trade capacity. ☑

The crisis will have long-lasting implications for financial flows to developing countries. Some emerging markets are seeing a strong rebound in capital inflows, but most developing countries face the prospect of scarcer and costlier capital.