

G20: Global Growth and Development Agenda

Z. Qureshi

Zia Qureshi – Senior Adviser in the Office of Senior Vice President and Chief Economist of the World Bank;
E-mail: mqureshi@worldbank.org

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The paper reviews the G20 agenda for strong, sustainable and balanced growth and its links to development. The author focuses on the role of the World Bank in the G20 and highlights key elements of the interconnected agenda for global growth, rebalancing, and development.

Introduction: From G7 to G20

Since the onset of the global financial crisis, the G20 has rapidly emerged as the premier forum for global economic policy coordination. It has increasingly taken over the global economic agenda from the G8. The G7 comprised about 70 percent of world GDP in 1975. With the rise of the dynamic emerging market economies, notably the BRICs, the G7's share in world GDP has been declining, and is projected to fall below 50 percent by 2012. The first step in broadening the group to align it with the changing global economic realities was the inclusion of Russia in 1997, which resulted in the G8. The G20 was born out of the East Asian crisis of the late 1990s. But the G20 really came to the fore during the 2008 global financial crisis, which launched the G20 summits. The G20 accounts for more than 85 percent of the world GDP and about two-thirds of the world population. In contrast, the G7 comprised only about 15 percent of the world's population. So the rise of the G20 is a step forward toward more representative, inclusive global economic governance.

The G20 demonstrated impressive unity of purpose and capacity for timely action during the global financial crisis. At the G20 Finance Ministers and Central Bank Governors meetings in Gyeongju, Korea, on October 22–23, 2010, it was noted by many speakers that cooperative actions by the G20 had helped steer the world economy from the depths of a severe crisis to a path to recovery, but that the same spirit of cooperation would be needed to address the challenging agenda that lies ahead in securing strong, sustainable and balanced growth. A successful outcome of discussions under the G20 Growth Framework, including on the issue of rebalancing of global growth that received much attention at the Gyeongju meetings, would be a key test of the G20's ability to be effective beyond the immediate fire-fighting phase of a crisis. Some initial steps were taken at those meetings on these issues but much work lies ahead in

reaching a fuller consensus. What was agreed by the Finance Ministers and Central Bank Governors in Gyeongju on rebalancing, exchange rates, and related issues was perhaps just a “cease fire.”

World Bank Engagement with G20

The World Bank has been engaging closely and actively with the G20. It regularly participates in G20 meetings and contributes analysis and advice through its membership of the various G20 working groups, such as the Working Group on the Framework for Strong, Sustainable and Balanced Growth and related Mutual Assessment Process and the Development Working Group. The Bank has a key role in the implementation of G20 initiatives on development. In its engagement with the G20 (and with the G8 as well), the Bank works closely with partner international institutions, especially the IMF.

The World Bank's role in the G20 has a particular focus on the agenda for growth and development in emerging markets and other developing countries. The Bank also endeavors to bring into the G20 discussions the perspective of those developing countries, including low-income countries that are not members of the G20. We are the G187, as Robert Zoellick, the World Bank president, often underscores.

In what follows I will touch briefly on the key themes and issues that the World Bank has emphasized at recent G20 meetings.

Global Growth, Rebalancing, and Development

The G20 Growth Framework and Mutual Assessment Process provides a useful framework to address the *interconnected* agenda of global growth, rebalancing, and development. Global growth and development are increasingly interlinked. Growth in emerging markets and other developing countries matters more and more for global growth.

The distribution of global growth is becoming progressively multipolar. Between 2006–2008, China and India each contributed more to global growth than either the U.S. or Western Europe. While the dynamic BRICs are leading the charge on growth, the potential to contribute to global growth is not limited to these economies. Sub-Saharan Africa achieved annual growth of about 6 percent in the five years preceding the crisis, and is now rebounding quickly.

Together, developing countries, including emerging markets and other developing countries, now account for about 28 percent of world GDP when measured at market exchange rates, up from 18 percent in 1980. In purchasing power parity terms, their share in world GDP has risen to close to 45 percent. The developing countries' increased share in world GDP, together with their faster growth rates, means that collectively they are now contributing about one-half of global growth (*Fig. 1*).

The share of emerging markets and other developing countries in world trade has risen from less than 20 percent in the 1990s to close to 30 percent today. Trade among developing countries, or South-South trade, has risen to 40 percent of total developing country imports (*Fig. 1*).

The upshot of these indicators of the rising role of emerging markets and other developing countries is that support to growth and development in these economies must be seen as an investment is stronger and more balanced global growth. Rebal-

ancing of global growth and achievement of more sustainable external balances that is currently a major focus of G20 discussions should not be a zero-sum game, rotating demand from one to another. The objective is to lift global growth, not just shift growth. With abundant investment opportunities, developing countries can be an important source of new demand for global growth. The Seoul Action Plan that emerges from ongoing G20 discussions should reflect these win-win interconnections between global growth and development. The role of emerging markets and other developing countries in supporting global growth is even more important in the present conjuncture, as advanced economies face strong headwinds and risks in the wake of the financial crisis.

Growth and Structural Reforms

Structural reforms to boost growth have received strong emphasis at recent G20 meetings. Even if growth in advanced economies proves resilient to the recently increased risks of a relapse in economic recovery, growth in several of these economies is not expected to be fast enough to make big inroads into high unemployment and excess capacity (*Fig. 2*). As the recovery matures, the policy focus in these economies needs to shift from demand to supply stimulus, that is, to fiscal, financial, and structural reforms that enhance medium- to long-term growth potential and remove barriers to employment. Structural reforms are also impor-

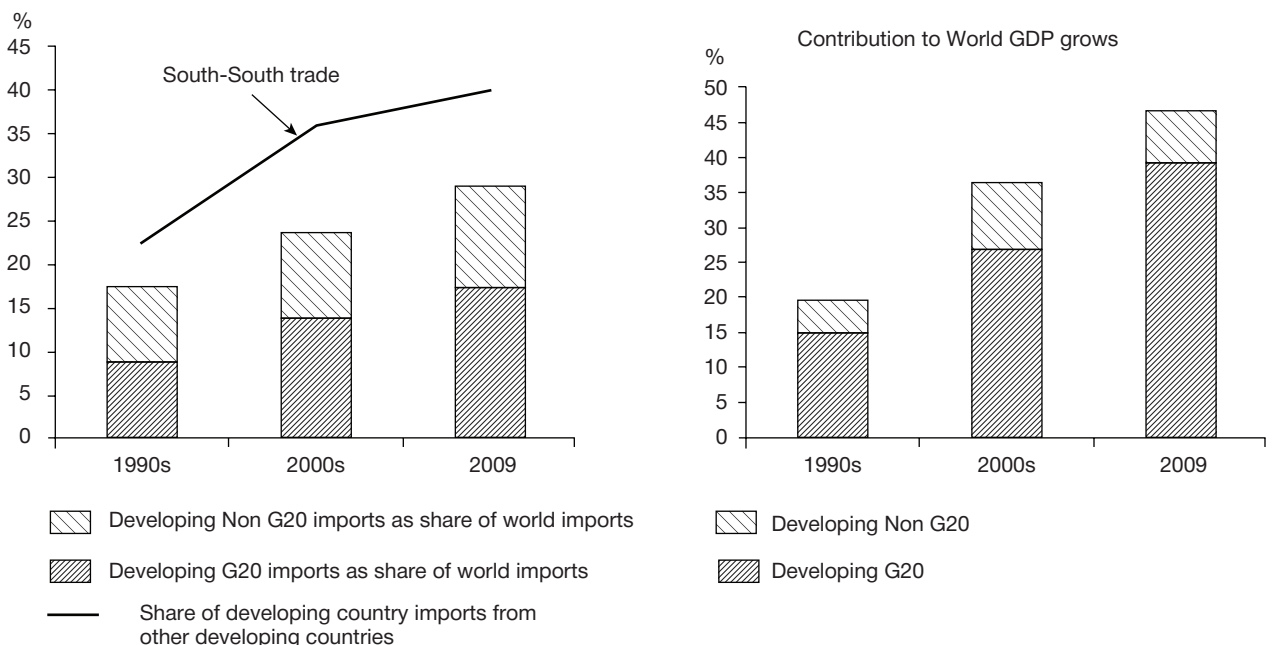


Fig. 1. Rising share of emerging markets and other developing countries in global growth and trade

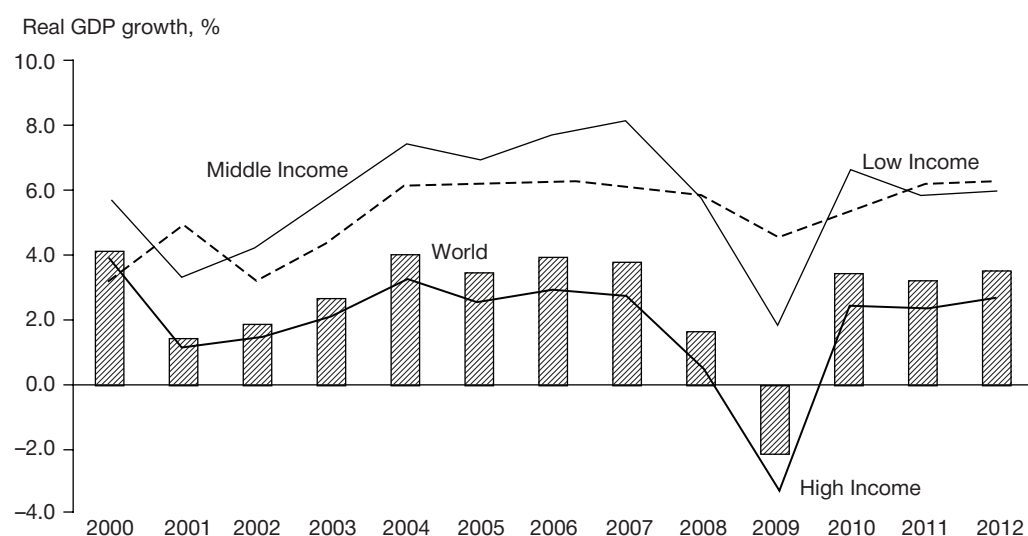


Fig. 2. Growth recovering but faces risks

tant for emerging markets and other developing countries, to sustain their strong growth performance. Ongoing structural reform discussions in the G20 span product and labor markets, infrastructure investment, and social safety nets. These reforms are an important focus of the World Bank and OECD reports prepared for the G20 meetings, with the Bank's work focusing in particular on the nine G20 countries that are emerging market economies.

Capital Flows and Development Financing

The global financial crisis will have long-lasting implications for financial flows to developing countries. Several emerging markets are currently seeing a strong rebound in capital inflows, especially bond and portfolio equity flows, in part driven by ultra low interest rates in advanced economies. Indeed, some emerging markets, such as Brazil, are taking policy actions to restrain inflows. Improved monetary and exchange rate management and coordination among the G20, as called for by the G20 Gyeongju meeting communiqué, would help ease such capital flow surges and volatility.

But not all developing countries are awash with capital inflows. East Asia and Latin America have seen more of a surge in inflows, less so in Europe and Central Asia, South Asia, and Africa. Five emerging market economies – Brazil, China, India, Mexico, and Russia – account for as much as two-thirds of gross private capital flows to developing countries, and the distribution of the flows may have become even more concentrated in the current circumstances.

Many developing countries, especially low-income countries, in contrast, face the prospect of scarcer and costlier capital in the post-crisis period, especially capital that supports long-term development. The rise in fiscal deficits and debt in advanced economies and concerns about crowding-out, tighter financial sector regulation and banking system consolidation, and a re-pricing of risk will likely raise the cost of capital and limit access to financing for many developing countries. Total net private capital flows to emerging markets and other developing countries are likely to remain well below pre-crisis levels for some time (*Fig. 3*). For many developing countries, therefore, official flows take on added importance, both in directly providing development finance and in leveraging private capital. G20 countries need to demonstrate leadership by protecting development financing as fiscal consolidation moves forward, including through a strong replenishment of the World Bank's International Development Association.

Infrastructure and Growth

Stronger infrastructure investment in emerging markets and other developing countries would both boost their potential growth and have positive spillovers for the global economy. Infrastructure investment and maintenance needs in developing countries are estimated at \$900-plus billion annually; actual spending is only a little over half that level – about USD 500 billion (*Fig. 4*).

Emerging surplus economies, notably China but some others such as Russia as well, are well placed to boost infrastructure investment. Infra-

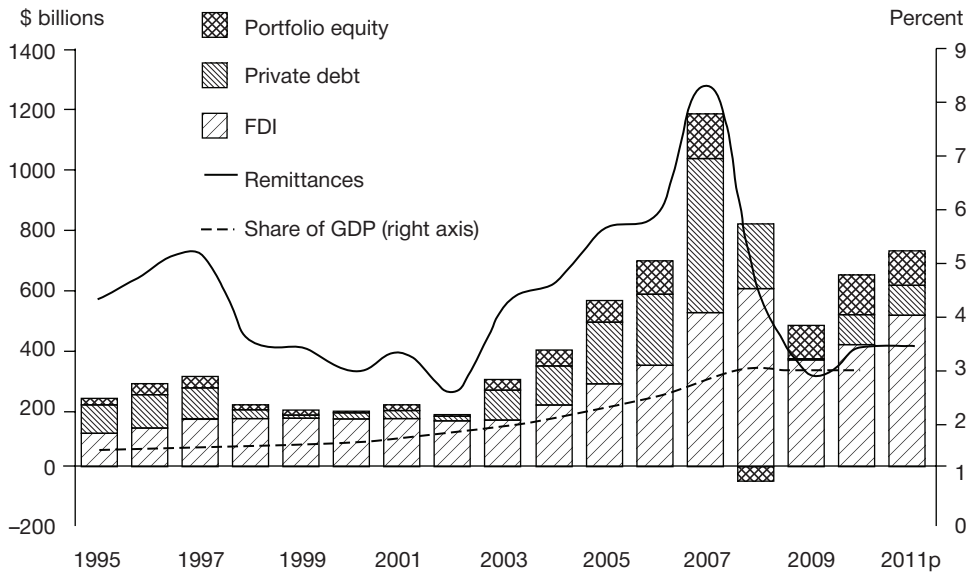


Fig. 3. Net private capital flows to developing countries will not return to pre-crisis levels for some time

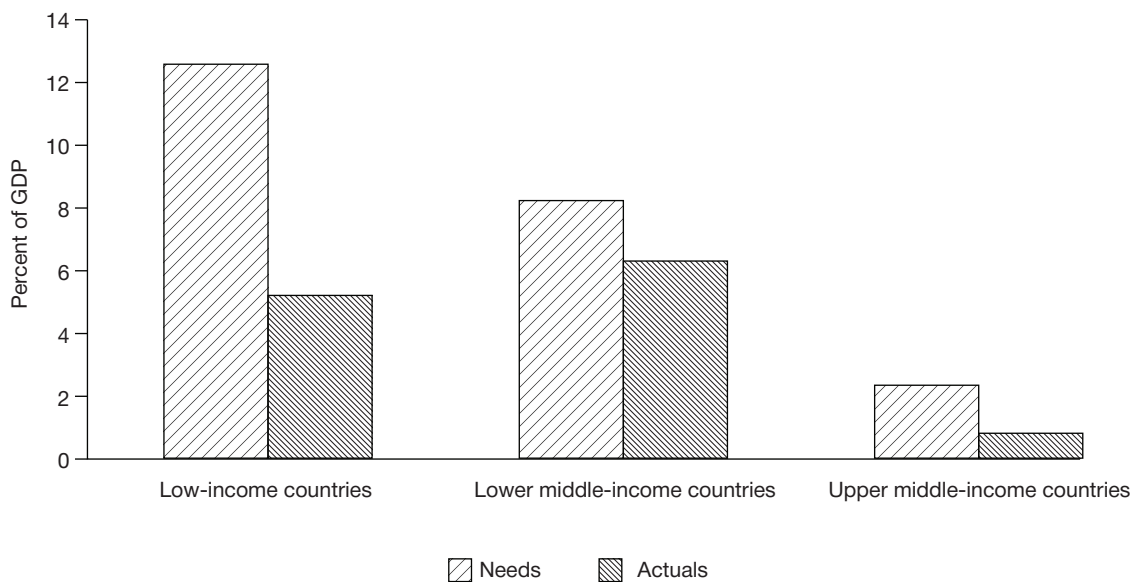


Fig. 4. Infrastructure investment – large gaps

structure gaps are especially large in low-income countries. Helping to build financial and institutional capacities for infrastructure investment in these countries by catalyzing scaled-up and coordinated efforts by governments, multilateral development banks, and the private sector can be a key area for G20 collective action in support of development.

Financial Sector Reforms

Financial sector development is an important priority in emerging markets and other developing

countries, both for effective engagement with globalized finance and for better mobilization and allocation of domestic resources for development. Ongoing G20 efforts to reform regulatory frameworks, such as the Basel III reforms, are crucial for global financial system stability. But it is important to ensure that the proposed reforms in advanced economies do not have unintended adverse consequences for financial flows to developing countries or for their financial sector management given differences in levels of financial development and in structural and institutional characteristics. There

will be a need for expanded technical and capacity building assistance to help developing countries implement higher standards adapted to their specific circumstances. This could be another important area for G20 support, complementing ongoing G20 initiatives in financial inclusion to improve access to financial services by underserved populations and small and medium enterprises.

Trade Policies

Open trade and investment are an important aspect of structural policies and essential for growth and rebalancing. While open protectionism has been resisted relatively well during the current crisis, there is concern that opaque protectionism has been on the rise (Fig. 5). Resort to measures such as antidumping actions, safeguards, preferential treatment of domestic firms in bailout packages, and discriminatory procurement has increased. Strengthening multilateral trade disciplines and moving ahead with the Doha Round therefore are important. A Doha Round agreement would impart a strong, non-debt creating stimulus to the global economy.

To improve poor countries' market access, G20 countries 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 infrastructure and logistics and aid-for-trade programs to enhance their trade capacity. The G20 could call on relevant international organizations

to coordinate a collective effort to scale up trade facilitation and lend support to such an initiative.

Food Security

Concerns about a renewed surge in food prices, and the vulnerability of many poor countries to higher food costs, underscore the need to follow through on international initiatives to enhance food security, notably the Global Agriculture and Food Security Program. They also call for a commitment to refrain from food export restrictions (or at a minimum a "code of conduct" to exempt humanitarian grain shipments in times of crisis). The G20 could play a useful leadership role in enhancing food security policy coherence and coordination and boosting international efforts to increase agricultural productivity.

Conclusion

The Korean Government deserves credit for the attention it has devoted during its G20 presidency to development issues, including infrastructure, financial inclusion and financial sector development, trade and development, and agriculture and food security, among others. The World Bank has important ongoing programs in all of these areas. It has been working closely with the Korean Government, and other partners, on concrete proposals and actions for the Seoul Summit that would further development efforts in these areas. It is good to see a commitment by France to pursue this development agenda in 2011 under its presidency.

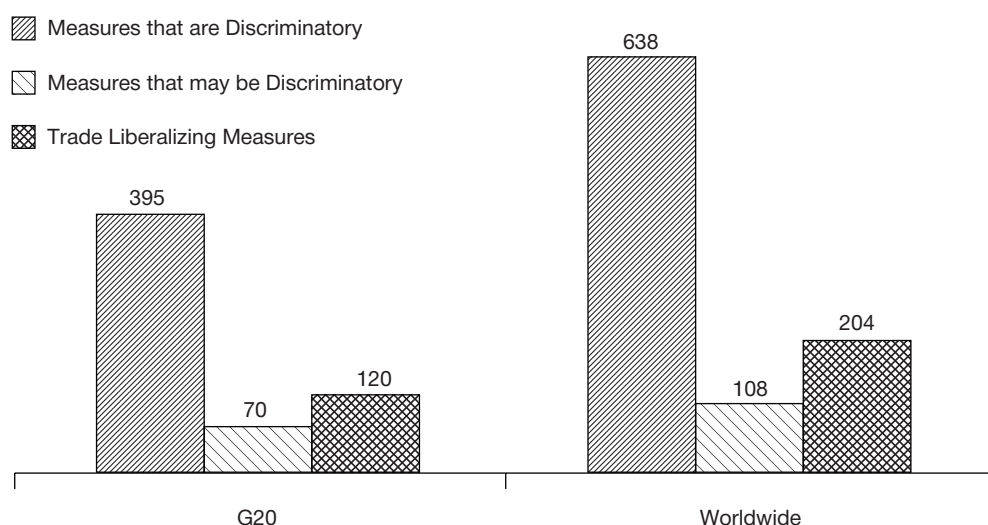


Fig. 5. Open protectionism has been resisted – but concern that opaque protectionism has been on the rise (Trade measures implemented worldwide and by G20, November 2008 – August 2010)

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