The Group of 20 nations burst onto the world stage at the beginning of the recent global financial crisis, when it became the chosen forum for articulating coordinated action to avert another Great Depression.

Since then, however, doubts have arisen about whether it can retain its relevance. South Korean international studies professor Choong Yong Ahn argues that including development issues and reaching out to non-G-20 members is essential if the G-20 is to continue to help lead the world.

It is both historic and significant that South Korea will host the fifth meeting of G-20 leaders in Seoul in November, the first time a non-western and non-G-8 country has played that role.

To start with, the honor redresses long-standing grievances and perceived slights. Just over a century ago, Korea’s request to attend the International Peace Conference in the Hague was rejected because Korea had lost its sovereignty through forced annexation by Japan. While it finally regained its independence after World War II, South Korea played the role of a follower in a world order shaped and defined by advanced nations. Now, however, South Korea will take center stage at one of the world’s premier forums and contribute to the formation of a post-crisis global architecture through the G-20’s agenda.

South Korea has already proposed two new agenda items to enrich the G-20’s ability to construct a framework for strong, sustainable and balanced world growth — first, the formal inclusion of “development” as a focus of the G-20, and second, the formation of a “financial safety net” for countries. Both items are aimed at reflecting the concerns of emerging, developing and low-income economies within the G-20 — in effect, giving voice to the 172 countries that are not members of the G-20. This is important. For example, despite the robust economic fundamentals of Asia’s emerging economies, they were adversely affected by the sudden reversal of capital from the financially advanced economies during the most recent financial crisis.1

When the crisis began to wreak havoc on the world economy in late 2008 after the collapse of
Lehman Brothers, every country, big and small, felt helpless in the face of a downturn many feared might lead to another Great Depression. The consequences of the crisis, which began in the dicey US mortgaged-backed derivatives market, were serious beyond anyone’s expectations, and few could predict then how the situation would unfold.

If there is any silver lining, the formation of the G-20 leaders’ process is one. Together, the G-20 leaders quickly and fairly easily agreed to collective measures to address the economic crisis on a global scale by simultaneously adopting significant fiscal stimulus packages for their respective economies and resisting the temptation to resort to protectionist trade measures like the “beggar thy neighbor” policies that tipped the world into the Great Depression in the 1930s.

Against this backdrop, the collective efforts of the G-20 proved to be effective in bringing about a quick recovery, although with varying degrees of success in individual countries. According to the International Monetary Fund’s economic outlook, both advanced and developing economies in 2010 are likely to bounce back to 2.6 percent and 6.8 percent growth, respectively, on a year-on-year basis from a contraction of 3.2 percent and growth of 2.5 percent, respectively, in 2009. The world economy as a whole is forecast to grow 4.6 percent this year compared to a contraction of 0.6 percent last year. As a result, the first three G-20 summits — in Washington, London and Pittsburgh — lent credibility to the idea that the G-20 is the most effective global forum to combat the kind of financial and economic meltdown the world faced. This led to the conviction that the G-20 is the right forum for redesigning the post-crisis global economic architecture.

But can the G-20 live up to these expectations and pave the way toward sustainable and balanced global growth? In contrast to the first three G-20 meetings, the summit in Toronto in June raised serious questions about the continued relevance of the G-20. The Toronto communiqué, in contrast to previous meetings, revealed a lack of common understanding among the member countries.

In particular, the G-20 in Toronto, like the G-8 at a separate meeting just beforehand, proved unable to bridge differences among members in their exit strategies from fiscal and monetary stimulus. The question thus arises as to whether collective action at the G-20 level should be limited to times of crisis.

There has also been disagreement on financial sector issues such as imposing a tax on banks to fund future bailouts. For example, the US and the United Kingdom have gone ahead with their own measures to improve regulation of the financial sector, while Canada and Australia have strongly opposed these ideas. Given these differences, the great challenge for the G-20 lies in whether its leaders feel the forum continues to be both useful and relevant.

THE DEVELOPMENT AGENDA AND G-20 LEGITIMACY

Questions about the legitimacy of the G-20 process have naturally been raised because it is a self-selected grouping. But legitimacy even for an informal group like the G-20 depends on its ability to deliver on the objectives of its members. In this context, South Korea’s idea of putting development issues on the G-20’s Seoul agenda signifies a new stage in the group’s evolution. Leaders at the Toronto summit accepted the South Korean proposal and agreed to establish a Development Working Group tasked with elaborating a development agenda and establishing a multi-year action plan with measures to promote economic growth and resilience on a global scale.

In order to gain support from outside the group, the G-20 should recognize that the fruits of strong and sustainable growth need to be shared even-
The G-20 should recognize that the fruits of strong and sustainable growth need to be shared evenly among all nations, including the poorest. The G-20 also needs to be aware that the negative side effects of globalization can generate antipathy toward greater global integration, as observed in the militant anti-G-20 demonstrations that took place in both Pittsburgh and Toronto. To this end, the G-20 member countries need to look beyond their own interests and take on the responsibility of reaching out to non-G-20 countries.

MODELS OF DEVELOPMENT
A variety of development models exist with differing mixes of free market principles and government intervention. To cite a few examples: Malaysia’s foreign direct investment-led model, Taiwan’s small- and medium-sized enterprise-led model, South Korea’s conglomerate-led model and Hong Kong and Singapore’s free and open economic models each have unique features, even within a broader outward-looking development paradigm.

Out of these successful East Asian models, South Korea represents an “average country” model in terms of factor endowments such as land, population and labor. South Korea, as chair of the Seoul summit but also as a model East Asian “miracle” economy, can play an effective role in mutual learning by sharing the experience of rapid industrialization over the past half-century. A number of developing economies have expressed a keen interest in learning from South Korea’s experiences. In this regard, the G-20 countries can offer a variety of programs to the less developed economies among non-G-20 countries to enhance the legitimacy of the G-20.
According to the declaration by G-20 leaders in Toronto, narrowing the development gap and reducing poverty in low-income countries is integral to the G-20’s objective of achieving strong, sustainable and balanced growth in the global economy. Putting development on the agenda at the Seoul summit is in line with the overall objective of the G-20 for the global economy. This will certainly make the G-20 more relevant and acceptable to developing countries that aren’t part of the group. Promoting the development agenda will help accelerate global growth and reverse the three-decade trend of worsening equity between the developed and developing world. As Rajiv Kumar points out, in the absence of such convergent growth, the G-20 will be perceived as an expansion of the rich nations’ cartel to maximize the benefits of globalization at the expense of poorer countries.6

DISTINGUISHING GROWTH FROM DEVELOPMENT

In its development approach, the G-20 will focus on measures to assist developing countries, to promote economic growth and resilience based on an empirical hypothesis that 80 percent of poverty reduction is due to growth. What are the most important drivers of economic growth? What are the key pillars of economic growth? To answer these questions, we need to distinguish between “development” and “growth,” although both are often used interchangeably.

Economic growth refers to a rise in national and per capita income and production, while economic development means far more. A key aspect of development is that the people must be major participants in the process that brings structural change to an economy. That means they must participate in the benefits of development as well as in the production of those benefits. If growth benefits a tiny, wealthy minority, it cannot be deemed development. Growth is a necessary but not a sufficient condition for development. International cross-country development needs to be viewed from the same perspective.

Based on this definition, development issues involve a wide range of topics and approaches with the jargon that is often applied to emerging, developing and low-income countries. For instance, ongoing development projects include resource mobilization for global public good, improvement of aid effectiveness, achievement of the Millennium Development Goals (MDGs)7 and work on the social dimensions of development. Given the diverse development landscape, it is especially important for the development work of the G-20 to focus on its unique economic perspective and to support existing initiatives, such as the UN MDGs and projects carried out by development banks, while avoiding unnecessary overlap.

As the premier global economic forum, the G-20 and its development approach flows naturally from its core mandate of international economic cooperation. Recognizing that economic growth is a necessary condition to achieve sustained and self-sufficient poverty reduction — and is thus a critical component in closing the development gap — the G-20 should also focus on the economic growth aspects of development, particularly the economic growth of low-income countries.

Development-cum-growth fits well with the objectives of the G-20, especially because it also mitigates global imbalances. The critical challenge in seeking to achieve such strong, sustainable and balanced economic growth is how to generate new sources of aggregate global demand. It is clear that advanced countries, having experienced significant financial and economic setbacks during the recent crisis, will take time to resume their previous role as the primary source of aggregate demand for the global economy. At the same time, the rising consumption and investment of
emerging economies such as Brazil, Russia, India and China — and Asia’s other emerging economies — show high potential for becoming major sources of additional global demand. Thus, global demand rebalancing needs to be viewed as an integral part of the larger objectives of the G-20. Emerging, developing and low income countries are an important part of the solution and must be considered equal partners in achieving a more resilient and balanced global economy.

**KEY PILLARS OF DEVELOPMENT**

The G-20 should be committed to assisting developing countries, particularly low-income countries, to achieve their maximum growth potential. The G-20 has tasked its Development Working Group to identify the key pillars to achieve the objective. Given the diversity among countries, there is no “one-size-fits-all” formula for development success. The socio-economic background varies from Africa to Latin America to Southwest Asia. Therefore, developing countries and low-income countries must take the lead in designing and implementing development strategies tailored to their individual needs and circumstances. In this context, it is critical that the G-20 Development Working Group incorporates broad and diverse input from developing and low-income countries. After initial consultation with these countries as well as relevant international and regional organizations with expertise on development, the working group identified some “key pillars” of development, which are briefly summarized in the box at right.³

**ISSUES AND CHALLENGES**

The decision to include development as an issue on the G-20 agenda was motivated by the recognition that the G-20 needs to strengthen its post-crisis legitimacy and address the needs of non-G-20 member developing countries. Undoubtedly,
Trade
No country has managed to grow and reduce poverty without access to international trade. In the short-term, trade contributes to growth by expanding the market for goods and services. In the medium- to long-term, it contributes to further growth through improved productivity brought about by the import of improved technology, learning by doing and the introduction of competition.

Given the fact that the capacity to trade and access to trade are key elements in economic growth, an early conclusion of the Doha Development Agenda (DDA) trade negotiation is essential. In addition, “aid for trade” to enhance capacity building from the supply side and “duty-free, quota-free” market access for least-developed-country products should be considered at the Seoul summit.

Financial Services
In the developing world, access to financial services can mean the difference between thriving and simply surviving. Cross-country regression analysis suggests that the provision of financial services to more than two billion adults who lack such access is not only pro-growth but also pro-poor. By the same token, access to finance for small- and medium-sized enterprises — and in some cases, even large enterprises — is a key ingredient for growth and job creation in many low-income countries.

A G-20 Platform for Knowledge Sharing
In addition to the key pillars of economic growth described above, the G-20 has developed what it calls a “Platform for Knowledge Sharing” aimed at bringing together national development experiences of the past 50-odd years. By sharing development experience and expertise, developing countries and low-income countries, in particular, benefit from accumulated knowledge in designing the most effective models for their individual circumstances.

Resilience & Food Security
Low-income countries need to be properly equipped to deal with and recover from adverse external shocks, including global economic downturns, severe commodity price volatility, famine and other natural disasters. Improving long-term food security through such means as weather-based crop insurance is a key way of ensuring resilience.

Governance
Good governance, transparency, accountability, and capacity for effective development policy are central to growth and poverty reduction. All the pillars presented above require comprehensive reforms in the countries involved.
legitimacy for the G-20 can only come from actually implementing the decisions taken by the leaders at previous summits. In short, the G-20 has to improve its implementation record. Otherwise, its credibility will be forever affected.

There is a danger that the interim development agenda being suggested by the working group for adoption by the G-20 will become too large — and cause resources and attention to be spread too thinly — to ensure effective follow-up or implementation. In some sense, the agenda represents a standard menu in development economics, and suggests that the G-20 could find itself effectively overseeing the entire range of development issues in developing countries.

As a result, more focus is required. First, any consensus or philosophy on development needs to focus on the indigenous capacity-building suitable to the levels of need in developing and low-income countries. Any scheme based on a one-way flow from advanced countries to these countries is not likely to be effective. Pro-active participation on the part of developing countries is crucial for the legitimacy and sustainability of the G-20 process.

Second, the suggested development menu seems far too ambitious and impractical for a summit-level forum. Many of the proposed issues duplicate the mandates of existing multilateral organizations such as the World Bank and regional development banks, not to mention the UN’s Millennium Development Goals. A key question is how to set priorities differentiated from similar mandates given to other international organizations. Perhaps one way the G-20 leaders could help address the vast development challenges would be to further augment development funding for the World Bank and regional development banks, which have long experience in executing, monitoring and evaluating development projects. The G-20 leaders could agree on a principle to focus more on skills training and education in recipient countries.

Any consensus or philosophy on development needs to focus on the indigenous capacity-building that is suitable to the levels of need in developing and low-income countries. Pro-active participation on the part of developing countries is crucial for the legitimacy and sustainability of the G-20 process.

Third, the current development menu omits the need for “green growth” to combat climate change. The green growth paradigm can integrate the objectives of poverty reduction, job creation, environmental sustainability and energy security. The G-20 should at least design a scheme to allow the free flow of green growth knowledge between environmentally advanced and backward nations. The G-20 should insist that developing and low-income countries not ignore green growth by inducing them into global partnerships to galvanize low-carbon investment and launch initiatives such as a new technical assistance center. In this context, an emphasis should be placed on cross-border green investment, with a specific incentive system for developing and low-income countries.

Fourth, a “duty free, quota free” scheme would certainly prove helpful for the least developed economies. Most important, the G-20 should push for an early conclusion of the Doha Development Agenda to ensure growth through trade. At this point, though, there appears to be little more that the G-20 can actually do on this front other than to repeat the importance of concluding the Doha negotiations — given the absence of any concrete ideas on how to overcome the current stalemate.

Fifth, a G-20 global “knowledge-sharing plat-
form” appears likely to be a concrete outcome of the Seoul meeting. However, linking one country’s development knowledge and resources with those of other countries will not be sufficient. What is needed is something akin to the “iPhone model,” as some have suggested, whereby knowledge providers (much like application developers) have an incentive to furnish and continually update their know-how, while knowledge seekers (much like iPhone users) are able to select from a broad menu of options to pinpoint the specific information or expertise they require.

Sixth, the obvious link between the advanced and developing world is found in cross-border foreign investment. For the post-crisis recovery to remain on track, cross-border private investment is crucial to stimulate growth and employment. In this context, the G-20 needs to work on helping developing and low-income countries to build their capacity to absorb inbound FDI. Along these lines, cross-border movement of labor also needs to be addressed.

In the past half century or so, South Korea has been transformed from one of the poorest agrarian economies in the world to the 15th largest economy, with significant industrial maturity achieved on the back of an outward-oriented development regime. Being one of the late-comers to modern industrial development, South Korea’s compressed development history could serve as one of the success stories in the knowledge-sharing process between developed and developing countries. Its human resource development, rural modernization and manufacturing efficiency offer a practical menu of options.

In 2009, South Korea became the first country to partner with non-G-20 countries. In doing so, hopefully it will produce concrete results at the summit that will enable the G-20 to remain a sustainable global forum.

**Choong Yong Ahn is Distinguished Professor, Graduate School of International Studies, Chung-Ang University, Seoul, and is Chairman of South Korea’s Regulatory Reform Committee. He is also Foreign Investment Ombudsman, Korea Trade and Investment Promotion Agency, and serves on the Editorial Board of Global Asia.**

---

**NOTES**


3 The G-20 process began in 1998 as an informal gathering of finance ministers and central bank governors in the wake of the Asian financial crisis, but was suddenly upgraded to the G-20 leaders meeting in response to the recent financial crisis. Thus, it should be recognized that there is continuity in the G-20 process to address financial reform and coordination issues on a global scale.

4 The first Development Working Group meeting convened in Seoul in July to focus on specific action items as deliverable outcomes for the Seoul summit and included follow-up dialogue and feedback from various stakeholders.


7 In 2000, the UN Millennium Summit adopted the UN Millennium Declaration while recognizing the need to assist impoverished nations more aggressively. In 2001, UN member states pledged to achieve the Millennium Development Goals by 2015. The MDGs involve eradication of poverty, universal primary education, gender quality, child mortality, maternal health, HIV/AIDS, environmental sustainability and global partnership for development.

8 For background and details on key pillars for development, see “Scoping Paper for the G-20 High-Level Development Working Group by the Co-Chairs,” draft of July 13, 2010.