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# The G20 and development: The Korean agenda

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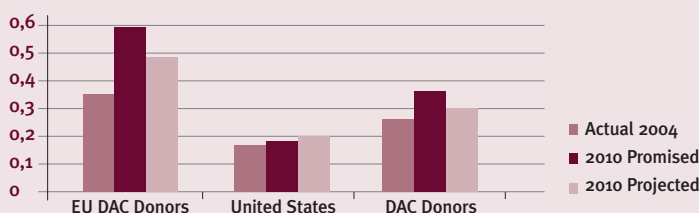
»» The Korean government has placed the issue of development at the centre of its G20 presidency during the second half of 2010. Its aim is to shift the focus of development debates to the importance of economic growth. This policy brief explains the thinking behind this agenda and what it is likely to entail.

## DEVELOPMENT DEBATES: THE STATE OF PLAY

The Framework for Strong, Sustainable and Balanced Growth is at the top of the G20's agenda. After the financial crisis, the world has experienced a contraction in domestic growth rates, bringing to the fore the need to re-emphasise the importance of economic development. This in turn goes hand-in-hand with the overall global development agenda.

The Millennium Development Goals (MDGs) intend, *inter alia*, to reduce poverty and child mortality rates, fight disease epidemics, and establish an integrated global effort towards development; some of these goals cannot be accomplished without sufficient financial support. The global financial crisis has prevented donor countries from making sufficient contributions, falling short of the promised percentage of their GDP (Figure 1-1).

Figure 1-1. ODA/GNI Promises and Realities, Source OECD



**FKI** THE FEDERATION OF KOREAN INDUSTRIES

**G | M | F** The German Marshall Fund of the United States

**FRIEDRICH  
EBERT  
STIFTUNG**

**Presidential Council on Nation Branding**

**Korea  
Foundation**  
한국국제교류재단

**KIEP**

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»»»»» Thus, recipients have less money available to fuel expected social development and domestic security. As Official Development Aid (ODA) from the members of the Development Assistance Committee (DAC) and the G8 decreases, so do growth rates in low-income countries (LICs). Progress towards the MDGs is faltering. This is contributing to heightened social conflict, leading to new concerns, such as rising unemployment and inequality in developing countries. As the LICs are largely dependent on external resources, the MDGs have the task of providing a vision that solidifies internal funding sources within poverty-stricken regions so as to help these nations maintain and accumulate their own prosperity, after the MDGs have been realised.

The level of achievement of the MDGs to date differs by region. For example, the goal of reducing poverty by 50 per cent has already been achieved in East Asia, while conflict-stricken and fragile states elsewhere have experienced an increase in absolute poverty levels and minimal economic growth of less than 2 per cent. As the case of East Asian countries shows, economic growth is the most effective means to exit absolute poverty and to fulfil the MDGs in a faster and enduring manner. This is why Korea has included the development issue in the discussions to be held during the G20 Summit in Seoul and seeks to re-emphasise economic growth as a vehicle to achieve the MDGs.

Sound economic growth is key to speeding up progress and achieving the MDGs. Accordingly, the G20 must take measures to promote an agenda that does not hinder but rather builds upon the MDGs and other existing development work. It must implement policies not only to prevent further consequences from the crisis, but also to make development sustainable in the long run. In addition, as the world gradually recovers from the global financial and economic crisis, the G20 also needs to make a smooth and quick transition from crisis management to post-crisis work.

The developed world has made tremendous efforts towards improving living conditions, reducing poverty and narrowing the inequality gap. However, it is evident that progress has fallen short due to the global financial crisis. The G20 Summit in Korea should discuss ways to speed up progress by re-emphasising economic growth to achieve development goals. By effectively implementing the economic development policy recommendations below, the G20 should be able to yield a balanced outcome from globalisation and improve equity domestically and internationally.

### **THE KOREAN AGENDA FOR DEVELOPMENT**

The MDGs have focused mainly on social development in least developed countries. However, in order to achieve this goal, it is necessary to introduce economic development measures that will establish a strong foundation for economic growth. Therefore, the G20 should consider specific, needs-based development policies that complement some of the features already laid out by the MDGs and other major on-going projects. This is the most effective way to help countries achieve and maintain successful social and economic development. What does the focus on economic growth mean in practice?

First, the G20 should promote greater infrastructure provision by making a collaborative effort to collect and share data on investment and its impact; developing action plans to increase public and private funding; and preparing action plans for technical and financial assistance to developing countries and LICs.

Also, the G20 should re-examine the programmes led by multilateral development banks (MDBs) to induce a better provision of public long-term capital towards developing countries and LICs and to collect more data to monitor progress.

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Second, as the world recovers from the financial crisis, trade is a powerful mechanism to help countries overcome the shock. Recognising the importance of trade capacity and market access for economic growth, the G20 Summit in Seoul should consider more specific measures, such as aid for trade and 'duty free, quota free' access for LICs.

According to the 2010 UN MDG Report, there has been meaningful progress in the trade sector, as developing countries and LICs have gained greater access to developed countries' markets. However, as most developing countries and LICs still largely rely on basic commodity exports, there should be a better trade-aid mechanism to support trade diversification, so as to broaden these countries' income sources. This will help them exit the economic downturn.

In order to achieve the MDG target of developing a global partnership for development, the G20 has to strengthen its commitment to open and integrated markets that will boost the world economy. The G20 should take the lead in fostering regional, as well as global market integration, in order to create an economic growth momentum for the international community.

Third, human development. Strong human capital is key for a country's growth and development. Hence, the goal of universal primary education was incorporated into the MDGs, and indeed, there has been some progress on this over the last decade. But the slow pace of progress to date hinders the full achievement of this goal. Furthermore, developing countries still suffer from a lack of qualified labour, which undermines multi-polar growth in relevant regions.

The G20 is expected to acknowledge this improvement in educational opportunities and reconfirm its commitment to supporting continued advances in this area, particularly for relieving gender disparity and getting 'hard to reach' children involved.

Notwithstanding this, in terms of economic growth what matters more in education promotion is channelling educated human capital into production, in order to prevent educated-workers from being idle. Thus, it is necessary to help developing countries and LICs promote employment-related education courses, including vocational training. G20 member countries should foster ties between higher educational institutions in developing countries and LICs to provide more opportunities for advanced technology.

Fourth, knowledge sharing is significant as developing countries and LICs can benefit from access to the accumulated knowledge about the development of leading G20 economies, and be able to generate their own development models.

Knowledge sharing must also include technology to create self-sustaining energy and manufacturing industries that offer stepping stones to additional development. So far, access to technology has been what has separated the least developed from the developed, dividing the international community into lenders and borrowers. Flexible knowledge and technology sharing will overcome the detrimental effects of extreme poverty, as well as relieve some of the newly emerging issues such as debt, unemployment and climate change. The collective effort of the G20 will strengthen ties and reinforce awareness of these issues within the global community.

Fifth, strong governance and anti-corruption should be priority issues for developing countries because they substantially influence the investment climate and are essential to the efficiency of financial flows. Mismanagement of public spending often leads to the failure to achieve sustainable growth by creating investment inefficiencies. It is not easy to verify the quality of governance in a given country, but even within a broad definition of governance (including regulation measures), domestic governance is critical for developing countries to ensure efficient resource allocation.



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Currently, some international institutions, such as the World Bank, are actively trying to engage in governance reform, sharing knowledge about institutional development to improve government regulation. In addition, these international institutions sometimes function as monitoring bodies; for example, the World Bank monitors Bank-financed projects. However, since their role is limited to specific projects, the G20 should provide a forum for open discussion on how to advance anti-corruption efforts with a view to achieving economic and social efficiency.

Sixth, financing. Limited access and use of financial services is a huge challenge for many developing countries and LICs. Empirical evidence suggests that countries with more advanced financial systems experience much faster poverty reduction and economic growth. Therefore, relieving the financial gap at a national level, as much as at the global level, is at the core of the development agenda.

Financial inclusion can eliminate many of the downsides of being poverty-stricken. It facilitates economic transactions between countries, which reduces time-consumption, risks, and costs. It can also support low-income families or businesses to make use of checking and savings accounts effectively to manage their finances. Furthermore, families in least developed countries can use the accumulated wealth to improve their living situations, for instance, through better access to education, health care services and other necessities. This will consequently prevent vulnerabilities like illness and unemployment, with sustainable, low-cost solutions. Companies can also utilise the benefits of financial institutions to improve production or manufacturing. Moreover, these financial institutions promote independence at both citizen and enterprise level, making their country more secure and resilient. Therefore, financial inclusion is an important factor in achieving the MDGs, as economic strength reduces vulnerability and inequality and leads to higher income and savings.

As the Pittsburgh Summit stressed the importance of improving financial services in poor countries, the Seoul Summit must further the debate to produce effective means to achieve concrete development and regulate newly-built financial systems in these countries. In order to kick-start and maintain financial systems in LICs, it is necessary continuously to support and evaluate the Financial Inclusion Experts Group. More specifically, the G20 must strengthen the financial inclusion pillars that will facilitate an appropriate policy environment, deliver mechanisms and products, and manage a responsible, customer-focused financial environment.

### **THE ROLE OF THE G20**

The G20 must foster a forward-looking discussion about objectives, measures and rationale, which will translate these recommendations into action. One of the key roles that the G20 can play is bridging the gap between developed and developing countries, by taking measures to enhance confidence among its diverse members. Furthermore, the G20 must discuss ways in which to coordinate existing aid organisations under institutions like the Organisation for Economic Development Cooperation, the United Nations, the World Bank, and regional MDBs, among others. Also, already developed or rapidly emerging economies in the G20 should be encouraged to participate in burden-sharing and mutual commitments, and to strengthen a horizontal relationship between donors and recipients. In this context, it is crucial for the G20 to bring diverse actors together, especially the newly emerging economies, by creating new development partnerships beyond conventional dynamics.

At the Seoul Summit, the G20 must recognise that low-income countries and emerging economies, fuelled by liberal trade, investment opportunities and financial inclusion, are potential sources of global demand. However, effectively to consolidate these potential sources

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into real demand, low-income countries should be encouraged to become independent, self-sustainable economies, free from external subsidy. If successful economic development and capital accumulation takes place, these growing states will become an important part of achieving a more secure and balanced international economy. Therefore, the G20 must take the lead and foster these potential win-win benefits.

In the face of critical challenges, such as climate change and energy and food security that may hinder substantial development, the G20 also needs to begin to seek ways in which to implement and improve MDGs and other projects beyond 2015. It also needs to support low-

income countries so that they become both economically and socially strong enough to discuss these new issues. Furthermore, the G20 should consult non-G20 countries and continue to work closely with the UN and other regional platforms to solidify a promising post-MDG agenda, which should focus on concrete economic development, along with the social outcomes proposed by the MDGs; therefore, liberating MDGs from their initial limitations and promoting synergy effects.

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