Postcrisis Growth and Development: A Development Agenda for the G-20: Overview

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The 2008 global economic crisis is arguably the deepest and most complex since the Great Depression. The crisis, which originated in the small U.S. subprime housing market, quickly spread across financial institutions, markets, and countries. In the early stages of the crisis, most experts believed that its negative impact would be confined to developed countries. As the crisis progressed, however, developing countries felt the effects through various transmission mechanisms such as trade, commodity prices, capital flows, and remittances. By the end of 2008, there was widespread recognition that the crisis was global and that actions by the Group of 7 (G-7) advanced economies alone would not contain the rapidly spreading global economic meltdown.[1]

As a result, in November 2008 and for the first time, the Group of 20 (G-20) leaders convened in Washington, D.C., to consider cooperative efforts to cope with the financial crisis, to begin consideration of critical financial and regulatory reform to avoid similar crises in the future, and to lay the foundations for restoring economic growth.[2] Its performance during the crisis has confirmed it as a legitimate forum for addressing economic issues in this context.

Responses of the G-20 to the Crisis

Due in part to a timely and coordinated policy response among the G-20 member countries, a global recovery has been underway since the last quarter of 2009. The recovery remains fragile, however, and the repercussions from the crisis have changed the landscape for economic growth and finance, particularly for developing countries that could face reduced access to global capital flows (World Bank 2010a). Sustaining the recovery, reestablishing economic stability, and rebalancing global growth will require coordinated policy responses and inclusive multilateral institutions with sufficient legitimacy to agree on and implement solutions to long-term global challenges.

In 2009, leaders at the G-20 summit in Pittsburgh officially endorsed that goal when they declared as their official objectives the achievement of "strong, sustainable and balanced growth" among G-20 members and "raising living standards in emerging markets and developing countries" (G-20 2009). The G-20's Toronto summit in June 2010 subsequently confirmed and reemphasized the inclusion of development issues on the agenda. According to the Toronto declaration, "Narrowing the development gap and reducing poverty are integral to our broader objective of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient global economy for all (G-20 2010)." [3]

While the financial crisis provided the immediate impetus for convening the G-20 at the leaders' level, the broader G-20 membership also reflected the growing weight of the dynamic emerging economies. Whereas the gross domestic product (GDP) of developing countries represented about 17 percent of global GDP in 1980, as of 2008 their share had increased to 29 percent, with a contribution to global growth of about 50 percent. Despite this progress, development challenges remain daunting and gaps persist, with the current crisis further complicating efforts to reduce poverty and meet the Millennium Development Goals (MDGs). Because of the global economic crisis, an estimated 64 million more people in developing countries will be living on less than \$1.25 a day (76 million more on less than \$2 a day) in 2010. Even by 2015, the additional number of poor attributable to the impact of the crisis could be 53 million and 69 million, respectively, based on these two poverty lines. The immediate impact of the crisis on development indicators in low-income countries could have been worse, but sounder policies and improved macro cushions allowed spending on social sectors to be maintained in many countries (World Bank 2010b).

The Korea–World Bank High Level Conference on Development

As a response to the uncertain economic environment, concern over its long-term impact on the MDGs, and the Pittsburgh commitment to raising living standards in developing countries, the Republic of Korea, as host of the November 2010 G-20 summit in Seoul, approached the World Bank in early 2010 with a proposal to organize a joint high-level conference on development. As a country that had transformed itself from a developing to a developed country within a generation, Korea is uniquely positioned to add legitimacy and to serve as a bridge between developing countries and high-income countries. For the World Bank, the collaboration provided a natural extension of its efforts to apply its expertise to pressing development issues and ensure greater attention to non–G-20 developing countries issues within the G-20 process.

The Korea–World Bank high-level conference "Postcrisis Growth and Development," held in June 2010, in Busan, Republic of Korea, successfully brought a range of key development issues to the forefront, laid the groundwork for setting global development priorities, and helped advance the discussion among the international community, the G-20, and the non–G-20 countries on development policy options and priorities. The papers, commentaries, and discussion from that conference—which was cohosted by the Presidential Committee for the G-20 Seoul Summit and the World Bank, with support from the Korea Institute for International Economic Policy (KIEP)—form the basis of this volume. Figure 1 shows the key areas of development policy that are covered in the following chapters.

About This Volume

This volume draws together the papers and proceedings presented at the Korea–World Bank High Level Conference on Postcrisis Growth and Development, which took place in Busan, Korea. The starting point for

Figure 1. Key Pillars for Policy Action to Achieve Strong, Sustainable, and Balanced Growth

Source: Authors.

these contributions was the emerging global consensus on two important issues. First, as globalization proceeds, the growth prospects of developing countries become more closely tied to the overall evolution of the global economy. Second, while the G-20 countries have a potentially important role to play in the coordination of international development policy—in cooperation with international organizations—they can address only a limited number of issues. The three criteria used to guide the selection of priority development issues and policies for consideration by the G-20 (and thus for inclusion in this volume) were: (a) whether they can help promote strong, sustainable, and balanced growth and thus help support economic recovery in developing countries, as well as in advanced economies; (b) whether international cooperation, international financing, and specific actions are needed; and (c) whether they lie within the G-20 mandate of international economic and financial cooperation.

The volume is organized as follows. In chapters 1 and 2, Il SaKong, chairman of the Presidential Committee for the G-20 Seoul Summit, and Ngozi Okonjo-Iweala, managing director of the World Bank, provide convincing arguments on the importance of integrating development into the G-20 agenda, the need to give voice to non–G-20 developing countries, and the key role Korea can play as a bridge between developed and developing countries.

Chapters 3–6 cover broad development themes. Justin Yifu Lin's paper (chapter 3) examines the emergence of multipolar growth in the postcrisis period and the reforms needed to support regional spillovers; Zia Qureshi's paper (chapter 4) argues for including development issues in the G-20 growth framework and mutual assessment process and therefore more systematically into G-20 policy discussions; Wonhyuk Lim (chapter 5) provides an in-depth analysis of Korea's development experience that illustrates how a low-income country can transform itself into an advanced economy; and the papers by Delfin Go and Hans Timmer and by Jomo Kwame Sundaram (chapter 6) provide differing but complementary views on the impact of the global crisis on achieving the MDGs by 2015 and what it will take to regain momentum toward their completion.

Chapters 7–10 review specific sectoral policies and actions needed to achieve strong, sustainable, and balanced growth. Chapter 7 by Bernard Hoekman and John Wilson discusses aid for trade and recommitting to the Doha agenda; chapter 8 by Marianne Fay, Michael Toman, and co-authors looks at infrastructure and sustainable development; chapter 9 by Christopher Delgado and co-authors argues for multilateral action on agriculture and food security. Finally, chapter 10 by Peer Stein, Bikki Randhawa, and Nina Bilandzic advances inclusive finance as a topic for the G-20 agenda. The volume concludes with a matrix of proposed policy actions summarizing the main action points presented in the sectoral papers (appendix A) and data tables of selected economic and social indicators for both G-20 and non-G-20 countries (appendix B).

The G-20: A New International Economic Forum for Global Cooperation in the 21st Century

Economic and financial crises exact a heavy toll in lost output and, more ominously, in human suffering. The current global crisis is no exception. Moreover, crises also have been historically associated with the end and beginning of new economic arrangements and institutions. The current crisis is, again, no exception. Even though the G-20 was originally an offspring of the 1997–98 East Asia crisis, its performance during the current global economic and financial crisis has shown that it has been accepted as a legitimate forum for addressing economic and financial issues. To this end, the G-20 has been successful in delivering concrete measures that avoided another Great Depression and has taken onboard long-term issues to ensure strong, sustainable, and balanced growth.

The Path to the G-20

The post–World War II global economy has been associated with the Bretton Woods Conference, which provided a structure for addressing reconstruction and stable growth in the postwar period. [4] Bretton Woods resulted in the birth of a group of institutions—the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the General Agreement on Tariffs and Trade (GATT)—that were charged with maintaining international economic cooperation.[5]

Yet the adoption in the early 1970s of floating currencies in the industrialized economies, along with the impact of the 1973 oil crisis, highlighted the need for a forum for economic coordination among the world's major industrial economies. In 1974, the United States created an informal gathering of senior officials from France, Japan, the United Kingdom, the United States, and West Germany called the Library Group. A year later, France invited these leaders, plus Italian officials, to a summit where they agreed to an annual meeting and a rotating presidency, giving birth to the Group of Six (G-6). The following year Canada joined, and the group became the G-7. This forum became the primary economic policy coordinating group, as the G-7 comprised about 70 percent of world GDP in 1975 (60 percent in 2008), in constant 2000 U.S. dollars. In world population, however, the G-7 represented a small percentage, accounting for only 15 percent of people worldwide.

After the fall of the Berlin Wall in 1989, the G-7 recognized that the economic and political landscape had started to change. G-7 leaders began to hold separate meetings with the Russian Federation, the largest of the Eastern European countries. In 1997, the Russian Federation formally joined the group, resulting in the formation of the G-8. With the East Asian crisis of 1997–98 and the 1998 Russian financial crisis, the G-7/G-8 was put to the test, and it became clear that the body was beginning to lose legitimacy for solving the problems facing the global economy. Thus, the G-20 was created in 1999, both as a response to the financial crises of the late 1990s and in recognition that key emerging-market countries were not adequately included in the core of global economic discussion and governance. Furthermore, new global challenges were emerging—such as the HIV/AIDS pandemic and global warming—that affected both developed and developing countries. Despite these shifts, the G-7/G-8 remained the main economic forum until the 2008–09 global economic and financial crisis.

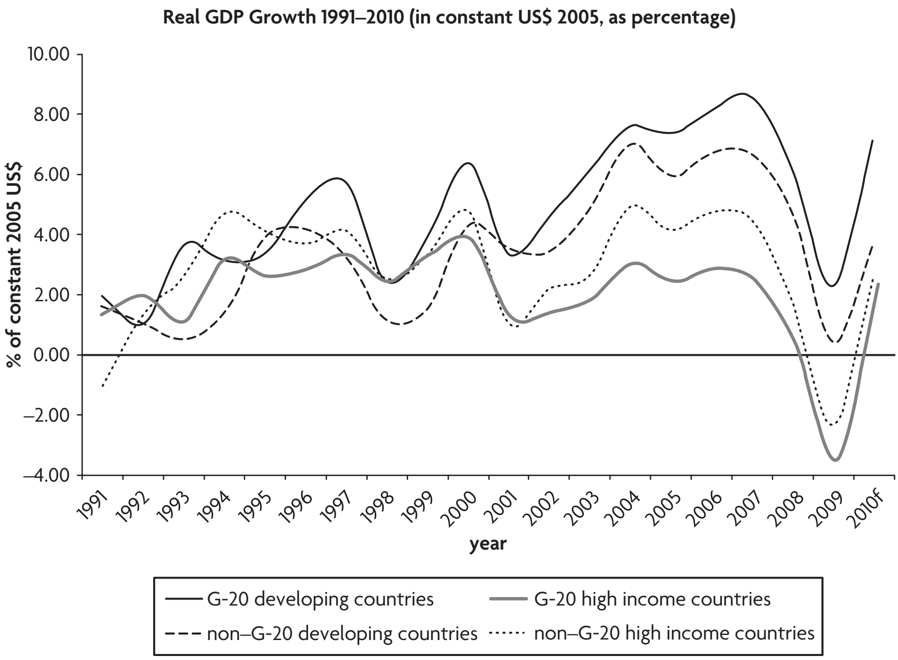
The 2008–09 crisis brought to the forefront the growing recognition that the G-7/G-8 was a limited forum to respond to a rapidly spreading and truly global economic crisis. As a result, in November 2008, G-20 leaders convened in Washington, D.C., to discuss how to cooperate so as to strengthen economic growth, cope with the financial crisis, and lay the foundations for reform in order to spark recovery and avoid similar crises in the future. The November 2008 summit was triggered by the financial crisis, but it also reflected decades-long shifts in the global economy in which emerging economies have been acquiring more economic and political preponderance at the global level.

Decades Long Shifts: The Rise of the G-20

These decades-long shifts in the global economy are illustrated in figures 2–6. The increasing globalization that the world has experienced in recent decades—supported by multilateral trade policy reforms, broad liberalization in domestic trade and investment environments, and technological advances—has facilitated the acceleration of growth in developing countries and, by extension, the importance of these countries in the global economy.

Developing countries have been growing at a much faster average rate than high-income countries have, and their weight in the global economy has been rising. In 2010, developing countries are projected to grow at 6.2 percent. These countries contributed around 40 percent of global growth in the past decade, and in 2010 their projected contribution will

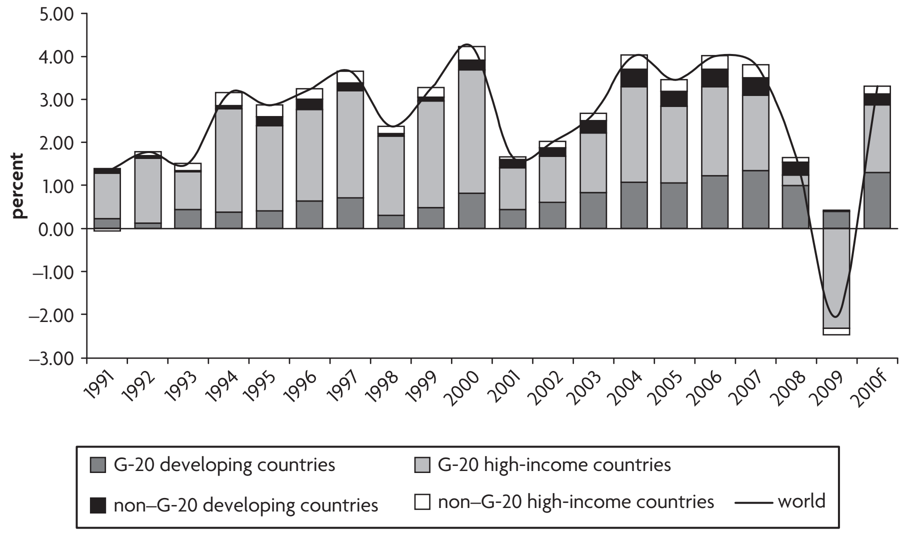
Figure 2. Real GDP Growth in Developing and High-Income Countries, 1991–2010



Source: World Bank Development Prospects Group.

approach 50 percent. Because developing countries are growing faster, they are also increasing their share in global GDP. Whereas developing-country GDP represented about 17 percent of global GDP in 1980, as of 2008 that share had increased to 29 percent, when measured at market exchange rates and close to 45 percent if purchasing power parity weights are used. Those that are contributing the most to this new global economic landscape are the developing countries that are also members of the G-20; China and to a lesser extent India have been the main drivers of these shifts. In 1980, China accounted for 1 percent of global GDP. As of 2008, China's share had increased to 6 percent of world GDP (11 percent in PPP terms), accounting for a larger share in the global economy than the economy of Germany or the United Kingdom. India has also emerged as a player, with a 2 percent share in world GDP in 2008, similar to Canada's and Korea's shares. Still other developing countries that represent only a small share of the global economy have

Figure 3. Contributions of Developing and High-Income Countries to World GDP Growth, 1991–2010



Source: World Bank Development Prospects Group.
Note: All weights are in constant 2005 U.S. dollars.

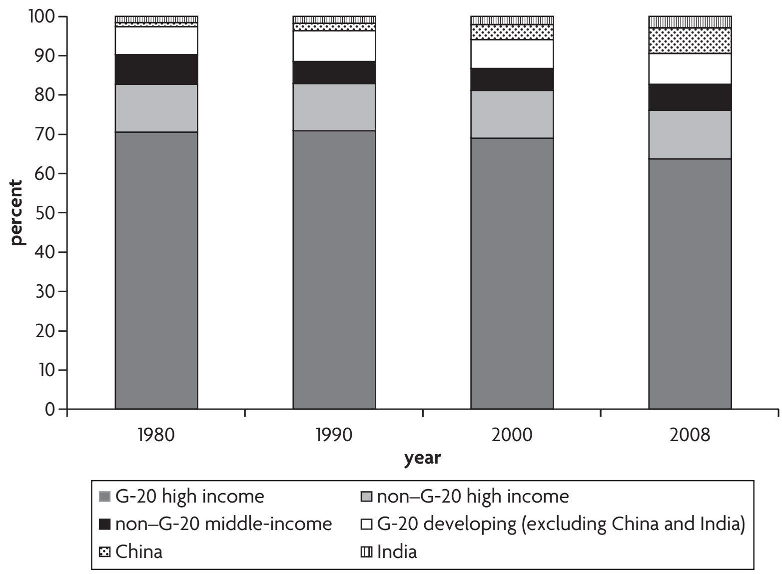
experienced a new dynamism and have acted as growth poles in their respective regions (see chapter 3 of this book).

Developing countries' share of global exports has also grown quickly, rising from 22 percent in 1980 to 31 percent in 2008. Developing-country members of the G-20 have led this shift: their share in global exports, which accounted for 6 percent of world exports in 1980, rose to 19 percent in 2008, with China, Brazil, India, and Mexico leading the way. The same can be said of net foreign direct investment (FDI). Developing countries' share in global FDI was 7 percent in 1980, and by 2008 their share was 32 percent (with 21 percent coming from the developing-country members of the G-20).

Closing the Development Gap: The Inclusion of Development Issues in the G-20 Agenda

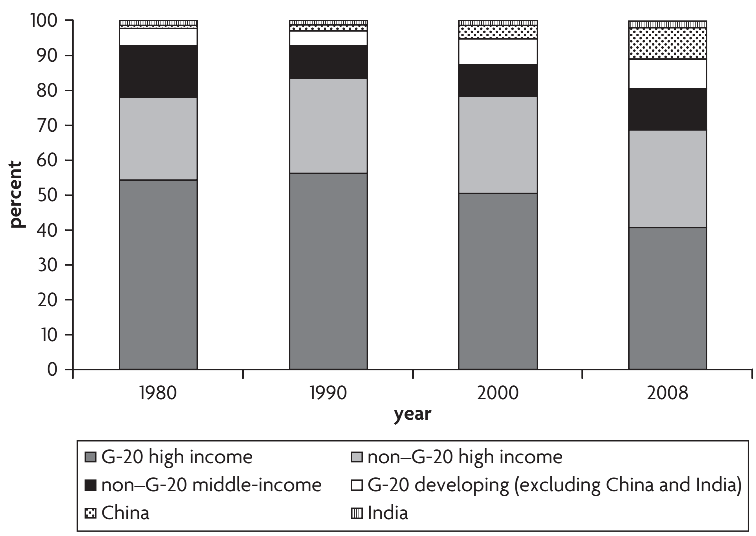
Although in the global economic transformation of the past decade the world's economic center has shifted away from high-income countries

Figure 4. Developing and High-Income Countries' Share of World GDP, 1980–2008



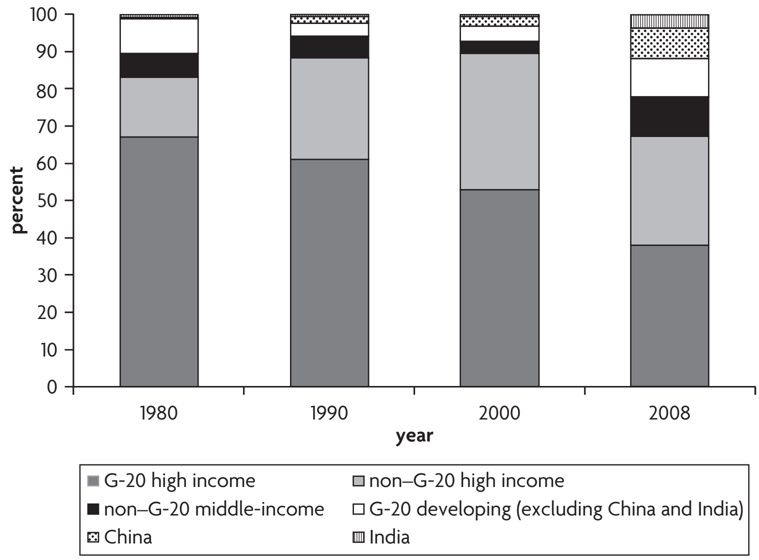
Source: Staff calculations based on World Development Indicators.

Figure 5. Developing and High-Income Countries' Share of World Exports, 1980–2008



Source: Staff calculations based on World Development Indicators.

Figure 6. Developing and High-Income Countries' Share of World Net FDI, 1980–2008



Source: Staff calculations based on World Development Indicators.

toward developing countries, in particular developing-country members of the G-20, the nine middle-income countries in the G-20 continue to face major development challenges. With large concentrations of poverty (table 1), they are home to 54 percent of the world's extreme poor (58 percent based on a $2-a-day poverty line) and account for more than half the estimated increase in global poverty resulting from the crisis. Moreover, several of these countries, based on trends to date, are not on track to achieve some of the Millennium Development Goals (figure 7).

An estimated 64 million more people in developing countries will be living on less than $1.25 a day (76 million more on less than $2 a day) in 2010 because of the global economic crisis. Even by 2015, the number of additional poor attributable to the impact of the crisis could be 53 million and 69 million, respectively, based on these two poverty lines (World Bank 2010b). In addition, growth contractions are particularly damaging for human development because the deterioration during downturns is larger than the improvement during upturns and the full severity of

Table 1. Percentage of Poverty in Developing Countries, 1981 and 2005

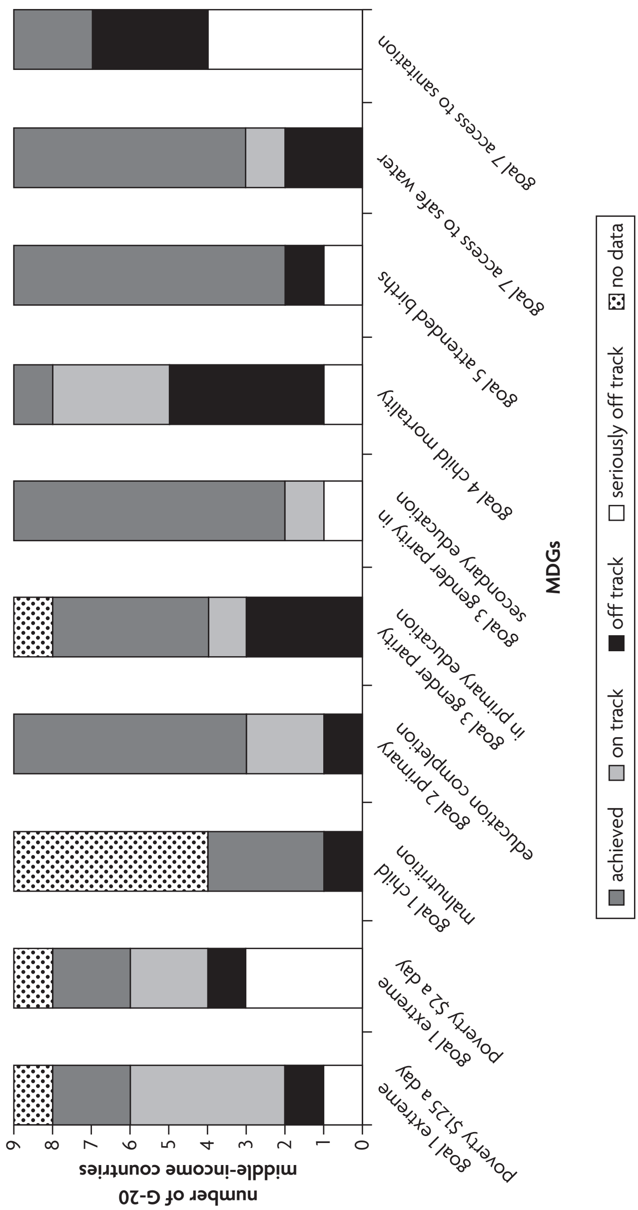
	Population $1.25/day		Population $2.00/day	
	1981	2005	1981	2005
G-20 developing countries	61.5	23.1	79.1	46.4
Argentina (urban)	0.0	4.5	1.2	11.3
Brazil	17.1	7.8	31.1	18.3
China (rural)	94.1	26.1	99.4	55.6
China (urban)	44.6	1.7	91.5	9.4
India (rural)	62.5	43.8	88.5	79.5
India (urban)	51.0	36.2	80.4	65.8
Indonesia (rural)	73.0	24.0	92.8	61.1
Indonesia (urban)	63.8	18.8	87.7	45.8
Mexico	9.8	1.7	24.1	5.9
Russian Federation	0.7	0.2	5.9	1.5
South Africa	34.8	20.6	51.2	37.0
Turkey	4.5	2.7	18.6	9.0
Non–G-20 developing countries	36.2	29.9	54.8	50.2

Source: World Bank staff calculations based on PovcalNet.

the effects manifest with a lag. According to estimates, 1.2 million more children under the age of five may die between 2009 and 2015, 350,000 fewer students will complete primary school in 2015, and about 100 million more people may remain without access to safe water in 2015 as a result of the crisis (see figure 8).

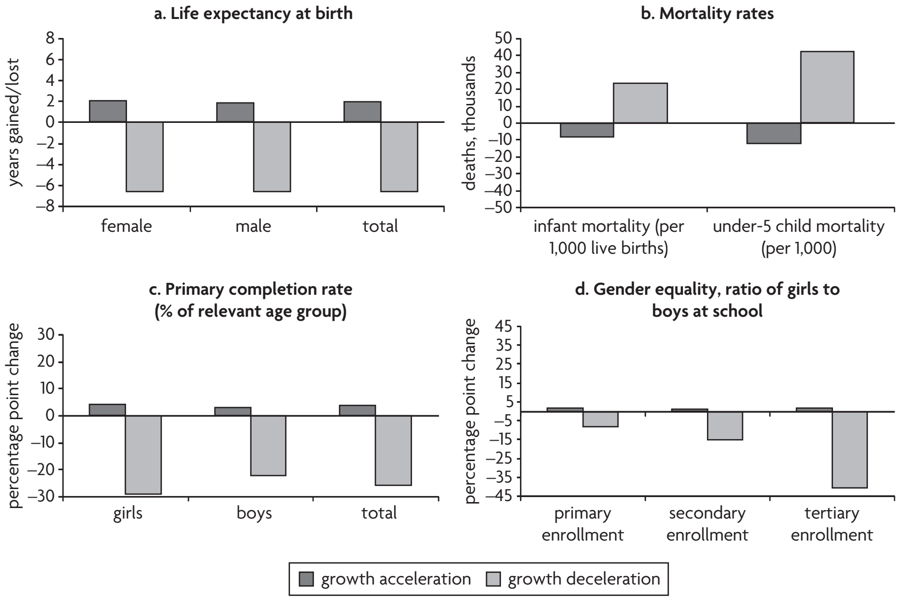
In summary, while the outlook for closing development gaps and achieving many of the MDGs was worrisome before the crisis, its impact has imposed a further challenge and has sparked a new sense of urgency in addressing both human development and economic growth issues. Global growth is indeed central to development. The most important action that the G-20 can take for development is to restore strong, sustainable, and balanced growth. As the recovery matures, the long-term growth agenda should be at the center of G-20 policy coordination and approached in a manner that allows developing countries (G-20 members and nonmembers alike) to close development gaps and achieve the MDGs.

Figure 7. Progress of the Nine G-20 Developing Countries toward the MDGs



Source: World Bank staff calculations based on most recent data available in World Development Indicators.
Note: The nine G-20 developing countries are Argentina, Brazil, China, India, Indonesia, Mexico, the Russian Federation, South Africa, and Turkey.

Figure 8. Effect of Growth Acceleration and Deceleration on Key Human Development and Gender Indicators in All countries, 1980–2008



Source: Global Monitoring Report 2010.
Note: Differences in the means of these variables for growth accelerations and decelerations (all country-year observations) are statistically significant at 1 percent.

Multipolar Growth and Development

In the recent past, we have witnessed three major crises: a food, a fuel, and a financial crisis. We have learned that the world is much more fragile and interdependent than previously thought. It is a world of increasing multipolarity, with multiple sources of growth and with powerful reverse links between developing and developed countries and among developing countries themselves. It is a world in which the closing of development gaps and achieving many of the MDGs will require strong, sustained, and balanced growth and economic coordination by the G-20.

Development and the G-20

In chapters 1 and 2, **Il SaKong and Ngozi Okonjo-Iweala** cite the importance of integrating development into the G-20 agenda, as well as the key role Korea can play as an intermediary between developed and developing countries. In chapter 1, SaKong echoes the point acknowledged during the Pittsburgh summit that the G-20 must have the support of the 160+ United Nations member countries that are not members of the group to maintain the legitimacy and credibility of the body. He emphasizes that it is necessary to have a realistic and pragmatic approach to development to gain support for the development agenda in the G-20, as well as help the world regain economic stability. In chapter 2, Okonjo-Iweala highlights the fact that economic resilience in emerging economies and low-income countries is vital to achieving the G-20's goal of rebalancing the global economy, given that nearly half of global growth comes from developing countries. To enhance this resilience, she advocates strongly for international efforts directed at closing development gaps and at implementing growth-oriented policies that will benefit developing countries and pull the world out of the crisis.

A Global Economy with Multiple Poles of Growth

The main message of chapter 3, by **Justin Yifu Lin**, is that support of stronger multipolar growth in developing countries should be seen as an important and integral element of the global recovery and strong, sustainable, and balanced growth in the global economy. Lin develops three main points in support of his argument.

First, the recovery from the global financial crisis masks wide variation in postcrisis economic performance across countries. During the current crisis, high-income countries' growth relied significantly on government policies. Over the medium term, however, high-income countries will need to rely on the growth of middle- and low-income countries to stimulate their exports. This interdependence and the spillovers between developed and developing countries will become even more important as the developed countries unwind their stimulus packages.

Second, developing countries have the potential to become engines of global growth, as multiple poles emerge as centers of regional growth. Conditions for strengthening these growth poles need to be improved, however. The following findings give evidence of the emergence of these multiple poles of growth:

- Developing-country GDP growth has been higher than that of high-income countries every year from 2000 to 2008. This phenomenon has not been restricted to a single country or region: every region of the developing world grew faster than the high-income countries, with the average gap over the period ranging from 1.4 percentage points (Latin America and the Caribbean) to 6.5 percentage points (East Asia and the Pacific).

- Accompanying these growth patterns have been increasing trade links, with the dollar amounts for merchandise exported from developing countries to developed countries tripling from 2000 to 2008. Moreover, the share of developing-country imports from high-income countries has declined, indicating that trade among developing countries has grown even faster.
- The G-7's share of global gross national income shrank from roughly two-thirds in 1970 to just over one-half in 2008.

The evidence presented by Lin suggests that strengthening regional growth would be good for global growth. But in order for new growth poles to take root some conditions need to depend on satisfying certain conditions: (a) developing countries should undertake structural reforms that help them mobilize domestic financial resources and attract foreign direct investment; (b) some developing countries will need external assistance; and (c) developing countries need to improve their implementation capacity and governance. Lin argues that developing countries represent a timely and profitable investment opportunity for high-income countries, especially in areas such as critical infrastructure that remove bottlenecks to growth. Eliminating such bottlenecks could allow for increased imports of capital goods by developing countries from high-income countries where a large unused capacity in the capital goods sector exists.

In his conclusion, Lin notes that the G-20 can help create beneficial opportunities for both developing and high-income countries. The multipolar growth of the future requires a new multilateralism in international relations. The G-20, international financial institutions, and other major global players have room to work together to promote innovative new financing mechanisms, consolidate best practices in the design of public-private partnerships for infrastructure, and share information and knowledge on economic growth and development.

In the discussion, **Ifzal Ali** argues that Lin's approach is much too broad and interventionist. First, Ali believes that the argument for instituting a broad, permanent multilateral governance system for economic coordination based on the G-20's effective policy coordination in response to the crisis has yet to be substantiated. Second, he calls for the G-20 to prioritize its work and focus on areas where the known or perceived externalities are so large and pervasive that they require global coordination by the G-20. Third, he argues that private companies, and not countries or their policy makers, are the real growth poles and that the underlying dynamic of economic activity does not require G-20 involvement. According to Ali, the role of the G-20 should not be to collaborate directly to lead or determine economic performance across different growth poles.

The G-20 can play a role, suggests Ali, in the establishment of a global, strategic pooling of public and private knowledge to accelerate scientific breakthroughs and develop new technology related to renewable energy efficiency.

Jong-Wha Lee focuses on Asia's role in creating sustained regional and global growth. Lee argues that Asia has weathered the financial crisis well, helped by the decisive and large-scale fiscal and monetary action taken by the countries in the region. As such, Asia has made and will make a significant contribution to multipolar growth. Nevertheless, the critical issue is whether future private demand can take up the slack as public demand wanes amid a sluggish external environment. This rebalancing will depend on the capacity of the regional governments to employ a combination of policy measures to reinforce domestic demand. According to Lee, several components are necessary in the long run to enhance the region's long-term growth potential: infrastructure, human capital, external trade, long-term finance, governance, institutional quality, and a well-developed financial sector, among others. Finally, he calls for improved cooperative efforts to ensure balanced and sustainable growth for the region and for the world.

In his comments, **Tunde Lemo** asks what a global economy with multiple growth poles implies for Africa. Lemo emphasizes that for multipolar growth to flourish on the continent, a new multilateralism must evolve in international relations, with the G-20 playing a catalytic role in food security and sustainable development, facilitating the development of infrastructure, and addressing problems of financial constraint. As Lemo vividly summarizes, "Africa does not need pity, but a deliberate implementable plan of action."

Finally, in his chair's remarks **Trevor Manuel** teases out more specific points for further examination. In particular, what does *capacity utilization* mean for development going forward? How will it influence the immediate future? How should we think about multipolarity, given the fact that high-income countries have historically been the global engine of growth, fueled largely by consumption?

He also highlights the balance between G-20 and non–G-20 countries as an important issue in defining the G-20 agenda, as well as in understanding its limitations and sustainability. Moving forward, he points to five issues for the G-20 development agenda: infrastructure, trade and FDI, quality of public and private institutions, quality of governance, and financial sector inclusion.

The G-20 and Global Development

Chapter 4 by **Zia Qureshi** is based on the report that the World Bank prepared for the G-20 meetings in Busan as part of the G-20 Growth Framework and Mutual Assessment Process. The author argues that global growth is central to development as the recovery matures and that the longer-term growth agenda should be at the center of G-20 policy coordination. Growth in developing countries increasingly matters for global growth. Developing countries are now contributing about half of global growth. South-South links are also becoming more important, with South-South trade now accounting for one-third of global trade. Promotion of stronger multipolar growth in developing countries should thus be seen as an important and integral element of the G-20 framework.

Another theme in this chapter concerns financing for development. Some major emerging markets are now seeing a strong rebound in capital inflows, but most developing countries face the prospect of scarcer and costlier capital. 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 and social spending needs have increased in the aftermath of the crisis. These developments reinforce the need to ensure adequate official development assistance (ODA), achieve satisfactory replenishment of multilateral development banks' concessional windows, and follow through on capital increases for those institutions. The tighter outlook for private capital flows and the fiscal stress in donor countries imply the need for supplementing traditional financing with innovative approaches. These include, for example, risk-mitigation guarantees, sovereign wealth fund investments, innovations such as the international facility for immunization, 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 of G-20 members to key global programs and a renewed vigor and creativity in exploiting the potential of innovative approaches that leverage private capital. The financing outlook also implies the need for stronger mobilization of domestic resources by developing countries and the need to strengthen developing countries' own financial systems. Expanded technical and capacity-building assistance to financial sector reforms in developing countries could be a significant area for G-20 collective action. It is important to ensure that regulatory reforms in financial systems in advanced economies do not have unintended adverse effects on financial flows to developing countries or their financial sector management.

A mechanism is also needed to assess the implications of these reforms for countries that are not members of the Financial Stability Board and Basel Committee on Banking Supervision. A number of countries have embarked on national reform initiatives, which, if not well coordinated, risk creating financial protectionism, regulatory arbitrage, and inconsistency across jurisdictions. Regulations designed for banks in advanced economies may not be appropriate for banks in low-income countries, especially smaller banks that cater to smaller enterprises, or may require a longer phase-in period. The G-20 could help by supporting a program of expanded technical assistance to developing countries to enhance their capacity to implement financial sector reforms.

The last theme in this chapter, which is also discussed in more detail in chapter 7 on aid for trade, is open trade as an engine of growth and facilitator of global rebalancing. The chapter calls on the G-20 leaders to renew their commitment to refrain from protectionist measures. The author argues that an even stronger signal would be a collective pledge to unwind the protectionist measures that were put in place at the onset of the crisis. Strengthening multilateral trade discipline and moving ahead with the Doha Round are therefore important. To improve poor countries' market access, Qureshi recommends that the G-20 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.

Danny Leipziger, the first discussant of this chapter, concurs with the author that development should be an item on the G-20's agenda and offers additional reasons why this would be so. In particular, he mentions the "innocent-bystander" problem, given that developing countries had little or no involvement in the events that precipitated the crisis but nonetheless were negatively affected by its impact.

In his comments, Leipziger also highlights what he thinks are the lessons learned from the crisis. He enumerates four: the importance of fiscal space to cope with the impact of the crisis; the establishment of new normal levels of growth and slower global growth prospects for many countries; the fact that sources of growth shifted before, during, and after the crisis and they will not revert soon; and, finally, the effectiveness of institutions matters everywhere. Regarding what is the new development thinking, Leipziger points out that the reliance of developing countries on the developed world is not the only strategy but rather that there are increasing opportunities for South-South economic support. He also points out that there is a general acceptance that greater distinction among various types of capital flows is smart policy and a revived public appreciation for government action. Commenting on what the G-20 can contribute to enhance the prospects for growth in developing countries, Leipziger lists: (a) that some G-20 members need to reduce their potential output gaps and caution against an early exit from expansionary fiscal policies; (b) that G-20 countries should resist the urgency to impose trade restrictions and should also champion the conclusion of Doha; and (c) that G-20 countries should be concerned about the provision of global public goods.

Mahmoud Mohieldin commends the paper for shifting the focus from short-term crisis response to sustainable long-term growth and ponders four themes in the paper. First, the G-20 needs to be concerned not only with recovery from the recent financial crisis but also with the issues related to the food and fuel crises that preceded it. Food and fuel issues continue to be relevant as volatility in food prices and lack of food security persist, as does fuel price volatility. Second, a critical component of the multipolar growth strategy is infrastructure development, and while infrastructure development often has win-win aspects, particularly in developing countries, many elements require careful attention, such as the exceeding confidence that public-private partnerships may bridge funding gaps in the short run.

On issues of finance and financial development, Mohieldin stresses the importance of recognizing that, in countries that aspire to average growth rates of 6–7 percent, governments may face a funding gap of 8–12 percent of GDP a year, in the face of low savings rates in developing countries. Furthermore, this situation may worsen given the crowding out of capital flows to developing countries and the debt crises of some sovereign bonds. Regarding inclusive finance, Mohieldin sees an overemphasis on the stability side of the Financial Sector Assessment Program rather than the promotion of development finance.[6] Finally, on the issue of trade, he shares Qureshi's view on the need to complete the Doha Round of trade negotiations and the link between trade promotion and infrastructure development.

The final discussant, **Robert Vos,** focuses on four issues that he believes need further reflection. The first topic is the notion of multipolar growth and decoupling. Indeed, in modern economic history the world has never experienced a situation in which major developing countries have become the principal engine of world growth, and the relevant question is whether the current and future capacity of developing countries is sufficient to transmit their growth dynamics to the rest of the world. China holds the largest share of global trade among developing countries and therefore will be the test case. Its ability to spark growth in the rest of the world, however, inevitably depends on its capacity to turn a large trade surplus into a balance or a trade deficit. The more desirable scenario is that China transmit its stimulus to the rest of the world through rising imports generated by the income effect rather than the substitution effect (exchange rate appreciation). The subsequent question is whether multipolar growth will include further income divergence among developing countries. He argues that this issue will require serious thinking on how the most dynamic poles of the developing world will generate spillover effects to the developing world at large.

A related issue is the implication of multipolar growth for global imbalances. Vos suggests that moving toward a world of multipolar growth consistent with income convergence across all nations and with broad-based poverty reduction will not require rebalancing but rather a reversal in the pattern of global imbalances. Achieving this state will require stronger international policy coordination, major reforms in the global financial system, and faster progress and coordination on reforms of financial regulation and supervision. Vos presents a parallel set of questions related to trade and provides two possible future scenarios for years to come: (a) a continuation of the rapid recovery of trade that started in mid-2009; and (b) a situation in which trade is not particularly dynamic and not necessarily because of protectionism. Vos asserts that the latter scenario is not as undesirable as it seems, as large surplus economies try to focus more on the domestic economy or poorer economies direct their economies away from their high dependence on primary exports. Finally, all these trends imply a world more dependent on developing countries and the need for major reforms of the existing mechanism for global economic governance.

In his summary, **Graeme Wheeler** highlights several questions raised in the discussion. First, can the G-20 be effective in a postcrisis environment? Second, how will countries make the transition from fiscal stimulus to consolidation? Third, is it wise for one policy instrument—fiscal policy—to carry so much of the burden? Fourth, the issue is not whether G-20 policy makers should support multipolar growth but rather how they can do it more effectively.

From Developing to Developed Country in a Generation: The Case of Korea

Korea's development experience over the past half-century has been a source of inspiration for many developing countries. Korea's GDP per capita in 1960 was US$1,258 in 2000 constant dollars. As of 2004, it had increased to US$18,224. Even among successful countries characterized by sustained high growth, Korea stands out with its impressive industrial upgrading and ability to recover quickly from external shocks. In fact, unlike some countries caught in "a middle-income trap,"[7] Korea has managed to achieve export-led growth by transforming its economic structure and systematically increasing the domestic value-added or local content of its exports.

In chapter 5**, Wonhyuk Lim** conceptualizes Korea's development as the result of synergies between enhanced human capital and new knowledge, involving complementary investments in physical and social capital with the state, nonstate actors, and markets working together to meet the development challenge. Lim's chapter highlights five key issues that underpin Korea's success in transforming itself from a developing to a high-income country.

First, Korea's development took place through joint discovery and upgrading of comparative advantage. To promote development, the government and the private sector made joint efforts to address innovation and coordination externalities. They developed "a big-push partnership" in which the government shared the investment risks of the private sector and provided support based largely on performance in competitive global markets. The reinforcement of successful experiments through the feedback mechanism of performance-based rewards led to dramatic changes over time.

Second, the government formulated multiyear development plans but delegated much of the implementation to business groups, which, in turn, tried to coordinate productive activities at the group level in addition to engaging in market transactions. To monitor progress, identify emerging problems, and devise solutions, the government held regular consultations with the private sector on relevant topics.

Third, Korea used international trade as an essential component of its development policy. Trade helped Korea discover its comparative advantage and alleviate coordination failures, overcome the limits of its small domestic market, exploit economies of scale, learn from best practices around the world, and upgrade its economy. Through trade, Korea was able to use the market to test-run its government policies, as well as its corporate strategies, and devise performance-based reward schemes. In fact, for Korea, export promotion served as the engine of growth and the organizing principle under which industrial upgrading, infrastructure development, and human resource development could be pursued. While relying on global markets, Korea made conscious and concerted efforts to move into higher–value-added areas along the value chain by making complementary investments in human capital and infrastructure.

Fourth, although state intervention in the economy was extensive in Korea in the 1960s and 1970s, Korea managed to contain corruption and rent seeking. Most important, making government support contingent on performance in competitive global markets helped reduce the potential for corruption.

Finally, as the capacity of markets, the state, and nonstate actors to meet innovation and coordination challenges changed, their respective roles began to shift as well. While the division of labor between the government and the private sector has changed, joint discovery and upgrading of comparative advantage have continued to operate as a fundamental development principle for Korea. The implementation of postcrisis reforms, including the adoption of a more flexible exchange rate policy, has made it easier for Korean firms to rely on price signals to discover profitable business opportunities even as they continue to engage in consultations with the government to identify promising technologies and deal with bottlenecks.

In the discussion, **Danny Leipziger's** comments focus on what we can learn from Korea as a development success story, from its Green Growth initiative to its success in the use of public policy. Based on Korea's experience, developing countries can take away the lesson that economic fundamentals matter, not just to satisfy donors but also to position the economy on a path toward progress. Second, income distribution and social programs are important to maintain broad-based public support for reforms. Third, the private sector need not necessarily fear the role of the government if the actions of the government and the private sector can be aligned. Fourth, taxes finance social infrastructure and replace aid, while paying taxes builds a social contract between citizens and the government. Fifth, government-led economic planning, which has been the template for all East Asian success stories, could potentially provide similar results in other countries. Donors and aid agencies can also learn that substantial transfers of resources are a waste of money without first building up the domestic institutions to handle and disburse funds efficiently.

In response to Korea's green growth initiative, Leipziger applauds the combination of short-term fiscal stimulus with a longer-term growth agenda. The initiative has set ambitious goals, concrete targets, and a national vision for how the economy will adapt long term. All these characteristics have been part of Korea's development process for decades. Some of the country's successful use of public policy stems from its meritocratic bureaucracy. External learning is encouraged, and within the general population higher education is fostered and excellence promoted.

Finally, Leipziger discusses additional actions that Korea could take as a G-20 leader to help developing countries. He suggests that Korea combine its increase in ODA with green technology transfers to foster sustainable growth, mobilize developing countries to take up the Doha mantle, and share its economic planning experience in infrastructure spending and public-private coordination to improve capacity and practice elsewhere.

Klaus Rohland centers his comments on five issues deserving of attention. First is the importance of policy coordination. In the early 1960s, the Korean government took a pragmatic approach: the strategy was state led, but its implementation was to a large extent left to the private sector. What also makes Korea stand out is the decision to merge development planning and resource allocation in one agency, the Economic Planning Board, and therefore avoid the coordination failures between separate planning and budget agencies that have been so wasteful in many other countries.

Second, Korea's development strategy was not only about industrialization, but also about agriculture. Its agricultural policies, which helped address the needs of the rural population, resulted in a shift away from agriculture as the predominant economic sector, allowing the industrial sector to take its place. Third, in the early 1970s, Korea replaced its focus on light industry with one on heavy industries and chemicals. This change was based on the Japanese experience, a model that Korean officials believed to be suitable for their country as well. Fourth, the role of state-led economic planning evolved gradually from direct to indirect planning through tax incentives and preferential credits, taking into account the increasing complexity of the economy. Finally, Korea's people and policy makers have been remarkably flexible and ready to adjust to new realities and avoid the middle-income trap.

In his chair's remarks, **Yoon Je Cho** draws attention to the significant agreement that the discussants have with Lim's paper and how they have amplified his interpretation by highlighting the meritocratic Korean bureaucratic system, which has a strong capacity for policy planning, implementation, and monitoring, as well as for making adaptive policy reforms. The discussants also cited the importance of building institutions and promoting primary-through-tertiary education, ingredients that allowed Korea to transition from being a technology importer to a technology innovator.

In the general discussion, the focus was not only Korea's impressive economic growth but also the country's rapid and successful transition from a heavily state-controlled economy to an open and liberalized one. The discussion identified many ingredients in Korea's successful economic development. However, participants and researchers do not yet fully understand whether a country's successful development experience can be replicated in countries with different social, political, and economic environments or how important noneconomic factors are in the development process.

Achieving the MDGs Remains a Daunting Challenge for Many Non–G-20 Countries

Even before the crisis, international actors were concerned about the ability of developing countries to meet the MDGs by the 2015 deadline. In fact, in July 2009, the United Nations Secretary-General Ban Ki-moon called on world leaders to gather in New York to discuss the ambiguous progress toward MDG completion. The global crisis has made the task facing developing countries that much more daunting and the role of the international community even more urgent. Chapter 6 discusses the major implications of the current global economic and financial crisis on the MDGs from two somewhat different, although complementary, perspectives. First, **Jomo Kwame Sundaram** provides the perspective from the United Nations (UN), and then **Delfin Go and Hans Timmer** provide the perspective from the World Bank.

Sundaram argues that many countries have achieved major successes toward a number of MDGs, with much advancement made in some of the poorest countries; their success has demonstrated that progress toward the MDGs is possible when the right policies are followed and when funding and international support are adequate. For example, Sub-Saharan Africa has made marked improvements in child health and primary school enrollment over the past two decades. However, Sundaram cautions that some of the achievements are also threatened by multiple crises, food and energy price hikes, in particular, as well as by long-term development challenges, such as climate change and conflict, which affect poor and vulnerable people disproportionately. Overall, progress has been uneven, and several goals and targets are unlikely to be achieved by 2015.

According to Sundaram, as the UN reassesses the MDGs in light of the global crisis, the outcomes in developing countries will likely show certain characteristics: uneven progress on halving poverty and hunger; some progress on education but the goal still unmet in many poor countries; insufficient progress on gender equality; progress on some health targets but little progress on maternal mortality; and limited progress on environmental sustainability. In the face of the global economic crisis, Sundaram argues that developing countries, especially the poorest ones, need more concessional finance and grants if they are to meet the MDG targets.

Taking the global context into account, as well as the lessons from the United Nations experience, Sundaram proposes several items for inclusion in the G-20 development agenda: prudential risk management, including capital controls; enlarging both fiscal and policy space to pursue countercyclical macroeconomic policies; developing alternative macroeconomic policy frameworks for productive employment creation and sustained growth; encouraging development finance for investment and technology; fostering greater multilateral tax cooperation for generating revenues, as well as equitable and effective debt workout mechanisms; and strengthening international economic governance reform to reflect the changed global economic balance. Finally, Sundaram argues that if these issues are not urgently addressed, the international community will miss a historic opportunity that some have termed the "Bretton Woods moment."

The second part of chapter 6, by Go and Timmer, is based largely on the latest edition of the World Bank's *Global Monitoring Report*. The thrust of their argument is that, until recently, the international community has paid little attention to policies that can help low-income countries absorb the consequences of the crisis and sustain progress toward long-term human development goals. Go and Timmer argue that, although production contracted less in low-income countries than in advanced economies, real incomes (that is, GDP adjusted for changes in terms of trade) in low-income countries declined more significantly when commodity prices fell sharply as the crisis hit the world economy. In addition, they argue that the medium-term impact of external shocks tends to be larger in low-income countries because they have fewer policy options to help their economies rebound.

Addressing the problems of low-income countries—and therefore giving voice to developing countries that are not members of the G-20—shifts the focus of policy makers to the mid- and long-term consequences of the crisis on human development outcomes. From the early 1990s until the outbreak of the crisis, the acceleration of economic growth in many developing countries tended to support significant progress in most human development indicators. In fact, when the crisis hit, global poverty had fallen by nearly 40 percent since 1990, and developing countries as a group were on track to reach the target of cutting poverty in half by 2015. Beyond poverty, progress on the MDGs has been uneven, with gains in certain targets and losses in others. For example, while many developing countries were on track to achieve gender parity in primary and secondary education, the progress has been slower in tertiary education, particularly in Sub-Saharan Africa and South Asia.

The authors used historical examples and indirect evidence to assess the immediate effects of the current crisis. They find that, historically, the impact of economic cycles on human development indicators has been highly asymmetric; the deterioration in bad times is much greater than the improvement during good times. They find that vulnerable groups, particularly in poor countries, are disproportionately affected. For example, during contractions, female enrollment in primary and secondary education drops more than male enrollment, and once children are taken out of school, future human capital is permanently lowered.

Go and Timmer also find that the declines during crises in public spending, household spending, and even aid flows are critically disruptive, while the increased spending during boom periods results in gradual improvements. The authors' key finding is that human development impacts of a global crisis of the magnitude experienced in 2008–09 will be long lasting. The authors conclude by arguing that the crisis has interrupted the MDG progress, even if some of the effects will not be apparent for many more years and even though the rapid response of the global community helped avoid an even more negative outcome. The authors claim that decisive leadership is still required to ensure a rapid and balanced recovery and that achieving the MDGs is a key part of the strategy to put the world back on a path of fast and sustainable development.

In his chair's remarks, **Shahrokh Fardoust** emphasizes that the key message from this chapter is pragmatic: achieving the MDGs is possible, even though not all countries will reach all targets by 2015. We can learn important lessons from countries that have tried and tested a wide range of economic and social policies that could ensure progress, provided that they are implemented well and backed by strong global partnerships. But, with only five years remaining before the 2015 deadline, efforts to achieve these targets need to be intensified, as evidenced by increasing policy attention and investment to close existing MDG gaps.

He also notes that a key point made both by Sandaram and by Go and Timmer is that, despite the strong efforts of many developing countries, the financial crisis and subsequent global recession have slowed progress toward the MDGs through their impact on commodity prices, export volumes, tourism earnings, remittances, and private capital flows. Failure to make significant progress toward the MDG targets will no doubt have long-lasting impacts on human development indicators such as education and health, which can affect entire generations and influence how economies develop over the long run. Because of progress during the period leading up to the crisis, however, many higher-income developing countries with the required policy space were able to at least partly offset the negative impact of the crisis on the MDGs with countercyclical macroeconomic policies and maintain service delivery and effectively use their social safety nets. The support by the international community was timely and helpful.

He adds that going forward regaining momentum in reaching the MDGs will require ambitious efforts to improve access to health, education, and basic infrastructure, particularly for the most disadvantaged groups. A dynamic and more resilient global economy—powered by strong and sustainable multipolar growth, infrastructure investment, more open trading systems, and recovery of private capital flows to developing countries—is a prerequisite for mobilizing the resources and generating the jobs and opportunities necessary to achieve the MDGs, particularly in the poorer countries.

Development: An Imperative in the G-20 Global Agenda—Key Pillars for Policy Action to Accelerate Economic Growth

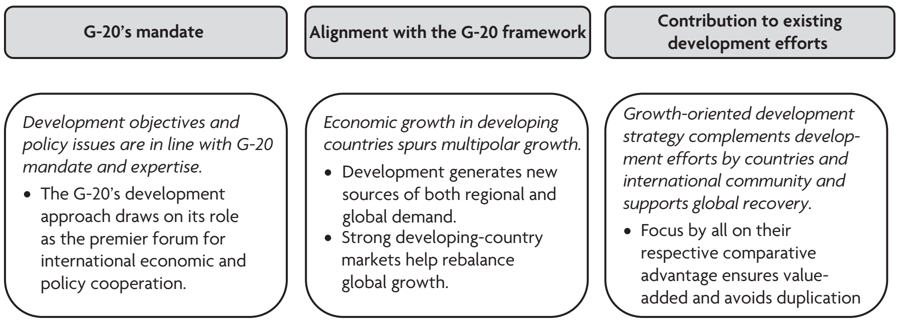
At the November 2010 summit in Seoul, the G-20 leaders are likely to focus on major policy issues for medium- to long-term global economic management that will foster strong, sustainable, and balanced growth. Therefore, the issue of rebalancing within the context of the G-20 framework, which was agreed on in Pittsburgh in September 2009, will need to be taken up again at the Seoul meeting. The G-20 leaders will likely consider topics such as resisting protectionism, recommitting to the Doha trade agenda, aid for trade, structural reforms and rebalancing growth, financial flows to developing countries, energy subsidies, agriculture and food security, accelerating private sector–led growth, inclusive finance, infrastructure and sustainable development, generating employment and reducing poverty, and regaining momentum toward achieving the Millennium Development Goals. Bringing non–G-20 developing countries on board is critical to enhancing the legitimacy and credibility of the summit as it considers development-related issues, including re-accelerating growth and development in the postcrisis period.

By addressing development topics in an economic context, the G-20 can demonstrate its ability to provide leadership that is both inclusive, incorporating the voices of non–G-20 countries, and comprehensive, addressing a wide range of economic issues as countries transition from immediate crisis management to the postcrisis period and beyond. Figure 9 provides a simple depiction of how the development agenda and the G-20's role as the premier forum for international economic cooperation are interconnected.

Criteria for Selection of Development Topics

It is widely agreed that the G-20 cannot be expected to take on a very wide range of development issues. Yet, the G-20 members, as well as multilateral institutions and think tanks, generally agree that the group will need to focus on a few critical and interrelated development topics consistent with the overall mandate of the group. As it will be argued in this volume, that means pushing the development agenda forward in the

Figure 9. The G-20's Approach to Development



Source: Based on Rhee 2010.

postcrisis world. In the selection of development areas, the conference organizers used the following criteria to set development priorities and policies for consideration by the G-20:

- Whether the development policy area can help promote strong, sustainable, and balanced growth and thus support economic recovery in developing countries, as well as in advanced economies
- Whether international cooperation, international financing, and specific actions are needed to address the development policy area
- Whether the development policy area under consideration lies within the G-20 mandate of international economic cooperation, already considered under existing G-20 agreements (that is, in the previous summits) and could result in tangible outcomes, including specific action plans or measures that could be agreed on at the Seoul summit and beyond.

Based on these criteria, the following sections cover aid for trade, infrastructure and sustainable development, agriculture and food security, and inclusive finance.

Aid for Trade

In chapter 7, **Bernard Hoekman and John Wilson** broadly define aid for trade as financial and technical assistance that facilitates the integration of developing countries into the global economy through initiatives that expand trade, particularly through financing of transportation and logistics infrastructure. By furthering economic growth and development, the benefits of aid for trade are shared by all—not only the poor in the least-developed and other low-income countries but also citizens in middle-income countries and those in the most-developed nations of the world.

The global initiative on aid for trade was launched at the 2005 G-8 meeting in Gleneagles, Scotland, where leaders committed to an increase of nearly 50 percent in aid-for-trade funding by 2010 (to US$4 billion), which was reconfirmed at global aid-for-trade review meetings hosted by the World Trade Organization in 2007 and 2009 and in G-8 communiqués. In addition, the G-20 summit in London in April 2009 included a statement of continued support for implementation of the commitments made on aid for trade by members. The authors emphasize that delivering on these commitments is particularly important in the current global economic situation.

The authors review recent trends in the delivery of aid for trade—its allocation by country and type of assistance—and analyze its impact and effectiveness. They cite 2008 data reported by the Organisation for Economic Co-operation and Development (OECD) that shows about 25 percent of ODA and 35 percent of sectoral-based donor funds were directed to aid for trade. For bilateral donors, this type of aid to low-income countries amounted to about US$15.6 billion in 2008. The authors also indicate that developing mechanisms and concrete initiatives for transferring resources from middle-income G-20 members (such as investment and knowledge) as well as galvanizing the private sector could do much to enhance the effectiveness of aid for trade in supporting trade and employment growth in low-income developing countries.

The authors argue that the importance of G-20 leadership on aid for trade is even greater in the current global economic environment, because trade is a powerful mechanism for helping countries overcome the shock of the crisis. It can help countries diversify into new markets and products, and it can improve productivity in recipient countries by lowering costs and enhancing growth prospects. In addition, the authors provide a fairly comprehensive summary of the evidence of the economic impact of aid for trade in both middle-income and low-income countries. According to the authors, aid for trade can help low-income countries address their competitiveness and productivity agenda and overcome government and market failures "without targeting specific industries or potentially distorting policies to support product-specific investments."

G-20 leadership can make a major difference in enhancing the effectiveness and visibility of the aid-for-trade effort, according to Hoekman and Wilson, who identify four areas for priority consideration by the G-20: (a) providing a strategic action plan for capacity building and transfer of knowledge on policies and regulatory options to improve the efficiency of producer services and the rate of return on infrastructure investments; (b) promoting market access for low-income countries through a commitment by all G-20 members to eliminate import restrictions for least-developed countries, thus leveraging the financial aid-for-trade resource transfers; (c) creating a new aid-for-trade public-private partnership to leverage the dynamism in the private sector to strengthen trade capacity in the countries that most need it; and (d) launching a G-20 strategic global initiative to provide dedicated financial support for the collection of cross-country data sets that will allow more effective monitoring and evaluation of aid for trade.[8]

In the discussion, **Arancha González** supports the main arguments made by Hoekman and Wilson and emphasizes that the economic crisis underscored the critical role that aid for trade can play in helping the recovery of the trade performance of developing countries, adding that aid for trade will have a critical role to play in the future, given the expected uneven rates of recovery from the crisis and the change in the pattern of demand both globally and across sectors. She argues that significant progress has been made in making aid for trade a global partnership in the relatively short time that it has been on the agenda of international organizations. Support and collaboration between actors like the World Trade Organization and the World Bank will be more important in the postcrisis period.

Alan Winters comments on both analytical and policy aspects of the arguments of Hoekman and Wilson. He finds their coverage of trade in services particularly useful. Services, which account for up to 75 percent of the economy in some advanced countries such as Britain, are growing rapidly in developing countries and becoming more central to their development, as well as an important source of income and employment. Winters notes, however, that reforming services is far more difficult than reforming goods markets. Their intangible nature makes problems of asymmetric information more important, implying that in most markets a degree of regulation is essential. He argues that donors and governments will need to commit resources and attention to these areas if they expect to reap rewards. He also raises important points on regional integration. He argues that trading among neighbors is good, as long as it does not come at the expense of other trade relationships. Aid for trade, however, does not call on countries to reduce their tariffs preferentially on imports from their neighbors.

On Hoekman and Wilson's policy recommendations, Winters strongly endorses the recommendation to establish a G-20 platform for capacity building and transfer of knowledge on policies and regulatory options to improve the efficiency of producer services and the operation of network infrastructures. He also endorses expanding market access to poor countries and increasing South-South trade through the extension of duty-free, quota-free access for the least-developed countries by all G-20 countries. Winters cautions, however, that these policy changes will be challenging for the G-20 countries, especially for the developing-country members of the group. Last, he endorses facilitating a stronger engagement with the private sector over aid for trade and enhancing monitoring and evaluation in aid-for-trade projects.

In his summary, **Ernesto Zedillo** explains that it is now generally accepted that achieving development is a much bigger task than simply opening markets and expanding trade. However, it is also well established that if trade is properly supported by the right human and physical infrastructure, as well as a propitious regulatory environment, it can indeed be a powerful tool for growth. He considers aid for trade a response to "two extremes that became most poignant during the debate over the launching of the Doha Development Round agenda." On the one hand, policy makers in some countries continue to hold the view that there should be "perpetual, unconditional, special, nondifferential treatment" toward the least-developed countries. On the other hand, another policy position holds that there should be immediate and full trade reciprocity. Zedillo argues that aid for trade is a response to these two extremes and "can provide a doable and efficient compromise." He warns, however, that the promotion of aid for trade should not come in lieu of completing Doha. Nevertheless, he believes that it is important to support trade, particularly among developing countries and between developed and developing countries. In this respect, Zedillo predicts that aid for trade will take an even more prominent role as countries move into the postcrisis period. For that to happen, however, the G-20 will need to provide support for additional research into the value proposition of aid for trade and its rates of return on investment.

Infrastructure and Sustainable Development

In chapter 8, **Marianne Fay, Mike Toman,** and their co-authors argue that infrastructure is essential for increasing economic development and reducing poverty. The choices made on the type and scale of infrastructure investment also have profound implications for environmental sustainability. Despite some progress, most developing countries still suffer from insufficient infrastructure access, quality, and reliability, with the notable exception of the newly industrialized East Asian economies, China and Vietnam. Moreover, infrastructure expansion has often come at the expense of the local environment and has further complicated policy responses to the longer-term challenge of climate change. Nevertheless, while more infrastructure may not necessarily lead to increased economic growth, since other conditions may also be constraining, poor infrastructure performance is affecting competitiveness, slowing improvements in health and education, and disproportionately harming the poor.

The authors show that slow progress in expanding the availability of infrastructure has significant adverse effects on households, particularly poor households and those in poor countries. They estimate that more than 25 percent of households in developing countries have no access to electricity. The situation is particularly difficult in Africa, where nearly 70 percent of the population remains unconnected. Although access to power has increased, nearly 900 million people are still without access to an improved water source. The sanitation situation is much worse, with 2.6 billion people worldwide still lacking access to improved sanitation. Connectivity, particularly in the rural areas, also remains low. Only 70 percent of the rural population in developing countries has access to an all-weather road. In Africa, this proportion is only 33 percent. The authors argue that these massive infrastructure deficits also affect productivity and thus firms' ability to compete in domestic and international markets. Unreliability of the existing infrastructure further affects firms' profitability and ability to invest and expand. The authors provide a "guesstimate" of developing countries' infrastructure needs at between US$1.25–1.5 trillion by 2013.

The authors list several causes of the generally disappointing level of investment in infrastructure to date. Infrastructure is expensive: in Africa, some 15 percent of GDP would be needed to achieve even relatively modest improvements. Public infrastructure spending is often inefficient and suffers from many of the shortcomings associated with public management. Private investment also has its limits: the private sector has contributed substantially through public-private partnerships, helping increase both efficiency and access, but it cannot replace public involvement and financing. In addition, limited data are available to monitor what is being spent, how effective those expenditures have been, and what condition infrastructure is in. This lack of information, in turn, reduces the impetus to improve on the status quo. However, the private sector has an important role to play in infrastructure expansion and is generally associated with a sizable increase in efficiency. The authors estimate that flows of capital associated with private participation in infrastructure amount to 1.2 percent of developing countries' GDP.

The authors explain that environmental concerns complicate this picture. Addressing them can increase the cost and complexity of infrastructure investment, even though the additional social benefits can well offset these costs. Improved energy efficiency in infrastructure design can also return higher longer-term benefits from lower costs. Striking the appropriate balance between environmental benefits and costs in planning infrastructure investments depends on a number of complementary policy issues. These include the establishment of sound environmental performance standards and the removal of environmentally damaging subsidies that affect infrastructure demands (especially in energy and water). The challenge is greater still when infrastructure options are weighed in the context of concerns about mitigating the longer-tem threats of climate change.

On the internalization of environmental externalities, the authors argue that over the past few decades a profound shift has taken place toward the use of economic incentives to limit harmful environmental impacts, including taxes on emissions or tradable emission allowances. These policies tend to create powerful incentives not only to curb environmental damages in a cost-effective manner using existing technologies but also to induce innovations that lower the cost of avoiding future environmental damage. The authors cite estimates provided by the World

Bank's 2010 *World Development Report* that substantial progress toward greenhouse gas mitigation would require investments on the order of US$140–175 billion a year by 2030, with a need for significant investments well before then to mitigate possible "locking in" of high-carbon infrastructure that would be much costlier to reverse subsequently. The authors believe that lowering these high costs would require major advances in low-carbon technology.

Fay, Toman, and co-authors also argue that the existing impediments to private sector investment in infrastructure can impede adoption of newer green technologies. They argue that the private sector inherently underinvests in research and development (R&D) because not all benefits can be appropriated back. Increased public support for R&D is thus generally warranted at the global level since many environmental problems transcend national borders. Therefore, large public investment in green R&D and subsequent public support for private investment in the development of environmentally sustainable products and processes, including infrastructure services, could be part of a broader investment policy for gaining international market leadership in the provision of new and improved green technology. Some countries, notably in East Asia, have taken this general approach to gain a strong position in markets for consumer goods that depend on technological innovation. The authors conclude that key steps forward include improving the conditions for infrastructure investment and environmental management in developing countries, greatly expanding funding for cost-reducing green innovation, and supporting its diffusion from more developed to developing countries.

The authors then turn to a number of measures that could be promoted through the G-20 to facilitate such efforts: (a) developing an action plan for increasing public and private financing of infrastructure, as well as improving its efficiency and environmental sustainability; (b) developing an action plan for providing increased technical and financial assistance to developing countries in their efforts to improve infrastructure efficiency, enhance the investment climate, and integrate environmental with economic concerns (a platform for enhanced collaboration among developing countries could be part of this effort); and (c) promoting collaborative efforts to collect and share data on infrastructure coverage and quality, as well as on investments and their impact.

On measures for increasing technical and financial assistance to developing countries for improving infrastructure (the first two points above), the authors propose that the World Bank and other multilateral development banks provide public sector finance and technical assistance in several specific ways: (a) by reviewing their guidelines for infrastructure investment and technical assistance, with a view toward encouraging further streamlining and integration across objectives while maintaining effectiveness and transparency; (b) by examining mechanisms for improving the development and financing of regional infrastructure projects; and (c) by initiating new efforts to use private capital most effectively, including better leveraging of public sector finance and official development assistance and improving the cost effectiveness of public-private partnerships, including an analysis of how to tap nontraditional investors such as domestic investors (whose role is on the rise), domestic pension funds, and sovereign wealth funds.

In his comments, **Haeryong Kwon** notes that private investment in infrastructure has been highly concentrated, with 60 percent going to the BRIC countries (Brazil, Russia, India, and China) and Turkey. Despite increases in investment in low-income countries, levels are still insufficient for adequate development. Consequently, additional research is needed to explore policy alternatives for increasing private participation in infrastructure for low-income countries. Options could include, for example, tax exemption or government guarantees for infrastructure investment.

The second major point he highlighted was South-South cooperation. In private participation in infrastructure, for example, large-scale involvement of OECD countries is increasingly being replaced by developing-country investors who have emerged as a major source of investment finance for these projects. Further studies are needed to identify the policies and mechanisms that can facilitate infrastructure investment in low-income countries.

Helen Mountford commented that economic development and environmental protection can no longer be considered in isolation. The recent economic, food, and fuel crises—together with the looming climate crisis—have made the interconnections clear. Fay, Toman, and co-authors show that these links are particularly important with respect to investment in infrastructure. Increased and better-targeted infrastructure investments are badly needed both to achieve development objectives and to move toward cleaner, lower-carbon, and more resource-efficient economies.

Mountford presented evidence that about two-thirds of OECD countries used their stimulus packages for investments specifically aimed at contributing to green growth, with some, such as Korea, placing green growth at the center of their stimulus packages. Many invested in increasing the energy efficiency of public buildings, upgrading or extending public transport (for example, high-speed rail and urban public transit), and promoting renewable energy generation. Some also included investments in water infrastructure. About half of OECD countries also took green fiscal reform actions as part of their responses to the crisis, introducing or increasing taxes on pollution and energy consumption and giving tax breaks for environment-related R&D. Another key win-win approach for the economy and the environment is removing environmentally harmful subsidies. Subsidies to water use, including undercharging and undercollection of tariffs, also distort infrastructure choices.

In addition to the action points that Fay, Toman, and co-authors put forth, Mountford adds more possibilities that include providing a forum where countries can work together on difficult national policy reforms affecting infrastructure decisions; identifying key gaps in information common among countries and coordinating the relevant organizations to work on filling those gaps; and setting policy priorities for infrastructure and agreeing on action plans for how to ensure the necessary technical and financial assistance. The G-20 could help move forward on designing and testing innovative finance tools, which could be important in delivering on Copenhagen finance commitments but would need to be carefully framed so that they contribute to negotiations rather than interfering with them.

Kiyoshi Kodera agrees with the proposals put forward by the authors for further G-20 attention. He found the argument interesting, with sound theoretical and conceptual frameworks. From a practitioner's point of view, he wanted to reinforce and complement the proposals. On financing of infrastructure, he held that governments should continue to seek increased revenues and that donors should increase grant or concessional funding for low-income countries. It is important for the multilateral development banks to fulfill their countercyclical role and maintain appropriate ongoing investment. In this context, he welcomed the recent series of agreements for general capital increases for the multilateral development banks pushed by the G-20. He indicated that the international community should continue efforts to secure concessional funding for the International Development Association and the Africa Development Fund. Finally, he argued that, with a view to cost savings and proper sequencing of actions, it is time to broaden impact assessments at the medium-term strategic planning stage.

Agriculture and Food Security

In chapter 9, **Christopher Delgado** and his co-authors argue that uncertainties over the availability of food staples—which account for about half of household expenditures—hamper economic growth in poor countries. Despite massive progress in the cultivation of rice, wheat, and maize during the Green Revolution between 1950 and 1997, the world is witnessing declining trends in the growth of cereal yields in developing countries, especially in the most populous poor ones. For the first time ever, more than 1 billion people are undernourished worldwide, according to the Food and Agricultural Organization. This number is about 100 million more hungry people than before the global economic crisis started in 2008. Sub-Saharan Africa has the largest prevalence of undernourishment relative to its population size, at about 32 percent.

The authors provide estimates showing that at least 3.5 million preventable under-five deaths per year are due to the poor quality of the dietary intake of children and mothers. And many more infants who survive every year are permanently disadvantaged through stunting and reduced cognitive development. Besides the obvious tragedy for those involved and the moral implications for a globalizing world, malnutrition imposes a prodigious tax on future growth for all. Growing food insecurity also risks jeopardizing social stability and openness to market-led development in the majority of developing countries.

The authors indicate that the outlook for food security in developing countries with rapidly growing populations remains uncertain. Food prices are expected to remain volatile because of structural changes that have occurred in commodity futures markets since the late 1990s and policy distortions such as mandates for the use of food crops as biofuel or feedstock. On the supply side, land and water constraints, coupled with the impact of climate change, are likely to result in more unpredictable food production.

Delgado and co-authors argue that it is essential to invest more, and more wisely, in agricultural productivity. The share of agriculture in ODA declined sharply from a high of 18 percent in 1979 to 5 percent in 2006–08, which equates to about a 50 percent decline in the real dollar value of support. The annual rate of growth in yields for major cereals in developing countries has also declined from 3 percent to 1 percent over the past 30 years, a rate well below projected demand growth. In Sub-Saharan Africa, the rates of growth in cereal yields declined from 1.8 percent in the 1970s to 1.1 percent in the 2000s. In Asia and Africa, population pressures and rapid urbanization have greatly reduced the land available for agriculture, and productivity of available land is undermined by desertification, salinization, soil erosion, and deforestation. According to World Bank estimates provided by the authors, up to 10 million hectares of agricultural land worldwide are being lost annually to severe degradation. At the same time, competitive pressures for the production of biofuels are adding stresses to agricultural land. Governments and private investors from rich and middle-income countries are buying up land in developing countries in an effort to secure their own long-term food and raw material supplies, which has triggered concern for the livelihoods and food security of people currently living on those lands.

According to the authors, the priority interventions in agriculture include research and extension relevant to smallholder farmers, better management of land and water resources, investment in rural infrastructure to reduce transaction costs, efforts to secure property rights of the poor, better access of the poor to markets, and institutional improvements that allow the public and the private sectors to mobilize resources and share costs. Promoting rural nonfarm employment in secondary towns and strengthening links between urban and rural areas are essential pathways out of poverty. They require improving the rural investment climate, expanding rural infrastructure, and upgrading the skills of the rural population to facilitate transition out of agriculture.

The authors add that it will be equally necessary to reduce the vulnerability of poor people, who are increasingly exposed to volatility from markets stemming from wide fluctuations in both supply and demand.

Although it is difficult to promote growth and poverty alleviation without promoting increased market exposure, increased market exposure will also heighten vulnerability to changes in food prices and incomes. Investing in access to food, safety nets, and nutrition is crucial to protecting the most vulnerable parts of the population. It is both costly, and often too late, to recreate safety net structures every time they are needed, and countries with effective programs with a wide coverage of the poor have been able to curtail the human cost of recent crises.

Concluding the Doha Round of trade negotiations is also vital to achieving food security. Competitive markets lower the cost of basic staples to consumers and also provide a variety of food types that permit, if not ensure, dietary diversity. Measures required to make domestic food markets work better for the poor include investment in appropriate infrastructure, competition and regulatory policy, and enforcement and strengthening of information flows. At the global level, a comprehensive and ambitious conclusion of the Doha development agenda would strengthen the international trading system, considered essential for lowering the volatility of cereal prices and increasing long-term food security. From a food security perspective, grain-based biofuel mandates, export bans on cereals, and similar policy interventions that reduce the ability of international markets to stabilize domestic markets in import-dependent countries should be on the agenda for discussion.

Delgado and co-authors argue strongly for multilateral action and suggest a number of principles that could guide the G-20's collective action on food security. First is the need to retain a focus on economic growth through several specific actions: (a) supporting the productivity growth of a sector such as agriculture that directly accounts for about a third of economic growth in poor countries; (b) improving the agriculture sector's resilience to climate change through support for development and adoption of more drought-tolerant crops and better water management; and (c) creating better market links, which can help dampen the volatility of food prices, reduce the risk of civil unrest induced by food price spikes, lower the associated need for precautionary savings, and raise consumption and growth of the nonfood sector.

Second, the G-20's collective action should be complementary to existing aid effectiveness initiatives: (a) support to country-led investment plans; (b) provision of a more flexible pool of unallocated donor resources to complement what donors as a group are already doing for agriculture and food security; and (c) use of existing entities and processes to support design, appraisal, and implementation of country programs.

Third, the G-20's collective action should be outcome-oriented and inclusive: (a) by giving priority to investment proposals with strong results frameworks; (b) by giving priority to countries with greatest need (assessed against MDG indicators), with policy environments more conducive to generating higher investment returns; and (c) by incorporating the results of extensive consultation with relevant civil society and private sector organizations to mobilize all the resources of a country to produce common results.

According to the authors, actions that the G-20 can and should undertake are fourfold: (a) provide additional resources to scale up agricultural and food security assistance to eligible developing countries; (b) ensure immediate availability of additional resources to multidonor funds for agriculture and food security so that these funds are more rapidly available and do not depend on the next replenishment cycle; (c) improve donor alignment with country programs; and (d) reinforce country-led processes by limiting parallel planning and prioritizing to those already in place in-country.

Delgado and co-authors note that the Global Agriculture and Food Security Program managed by the World Bank was launched as a multilateral fund to support innovative, strategic, and inclusive agricultural and food security investment in low-income countries. The new mechanism is run jointly by donors and recipients. To date, the program has been generously supported by pledges of over US$900 million and disbursements of US$264 million from Australia, Canada, Ireland, the Republic of Korea, Spain, and the United States and by the Bill and Melinda Gates Foundation.

In the discussion, **David Nabarro** elaborates on the challenges faced by developing countries in the aftermath of the crisis, characterized by high commodity prices and extreme price volatility. Agriculture and rural-based transformation are the engines of growth and resilience for the majority of people in the face of these challenges, with food security key to social stability and to individual survival, educational attainment, and prosperity. He emphasizes that leadership on agriculture and food security issues is coming from within countries, with recognition that government must play a strong stewardship role and that external support systems, including research, must be aligned. Responses are also being better coordinated at all levels, from governments, to non-state actors, to the private sector. G-20 actions have increased international investments and aid flows to food and nutrition, and Nabarro predicts that these investments are likely to increase. He contends that future investors will pursue comprehensive and evidence-based strategies and focus on the application of new technologies to ensure the impact and efficient use of their funds. This approach will also require robust in-country coordination, the pooling of financial assistance where possible, a high degree of accountability, and effective supervision and management of funds. The G-20 has an important role in catalyzing food and nutrition security worldwide through a combination of political, economic, and financial actions. These include advocating for and supporting collective multilateral action, encouraging changes in accountability and governance, supporting continuing reform of multilateral institutions so that they can better serve a multipolar world, and backing pooled financing systems such as the Global Agriculture and Food Security Program.

Cheikh Sourang agrees with the authors' main arguments and sees their paper as a timely and richly documented contribution to food security that provides a historical perspective on issues and options, as well as a discussion of workable solutions and related tensions and trade-offs in addressing food security issues. From the perspective of the International Fund for Agricultural Development as a UN agency and international financial institution exclusively dedicated to combating hunger and poverty in rural areas, the chapter provides an opportunity to illustrate what is happening on the ground and to stress the importance of a joint reflection on opportunities for scaling up successful interventions, including social protection, productivity increase, and a conducive policy and institutional environment.

The scaling up of what already works well requires a systematic and proactive approach to identifying pathways, drivers, and spaces for expansion in finance, policies, institutions, partnerships, and learning. In other words, systematic scaling up involves a common vision of agriculture as a multifunctional activity affecting economic growth, poverty reduction, and environmental management; early consultations during project design; mobilization of champions; and opening of policy and institutional space in country, regional, and international forums in response to market failures and emerging issues. Sourang also proposes a number of measures for multilateral action, standards setting, and efforts to enhance institutional effectiveness, including maintaining the current momentum in partnership development, to which he thought the G-20 could add much value.

Joachim von Braun comments that the world's food crisis has not yet entered its postcrisis phase. Food and nutrition insecurity increased during the interlinked food and economic crises of 2007–10. Not only food and energy markets but also food and financial markets have become closely linked, and these links pose new and added risks and uncertainties for the poor. On the key policy actions, the global governance system for agriculture, food, and nutrition needs to be redesigned, since global public goods are not being sufficiently delivered to meet demand. The current governance system lacks accountability, effectiveness, and inventiveness. He argues that a redesign should aim for a new architecture for governance of the global public goods related to agriculture and food. An independent strategic body is needed to overcome the global governance vacuum related to food security. The G-20 ought to ensure that this body has the authority and resources it needs to be effective.

On the need to reduce extreme price volatility, he comments that price volatility affects the poorest most and undermines the health and nutrition of many more. To prevent future global price shocks, food markets must not be excluded from the appropriate regulation of the banking and financial system, because the staple food and feed markets (grain and oil seeds) are closely connected to speculative activities in financial markets. In this context, von Braun proposes a number of measures: (a) better regulation to reduce excessive speculation opportunities in food commodities; (b) innovative grain reserves policies; (c) incentives for private sector investment to facilitate agricultural technology for the poor; and (d) expanded social protection and child nutrition programs. He concludes that prioritization, sequencing, transparency, and accountability are crucial for successful implementation of agriculture, food, and nutrition policy. More and better investment is needed, but investment will make its full contribution only when the governance of agriculture, food, and nutrition is being strengthened at international levels. Trying to counter institutional failures mainly with investments in technical solutions will not work. Food and nutrition security must have high priority among the development issues on the agenda of the upcoming G-20 summits.

Hak-Su Kim summarizes that the piece by Delgado and co-authors rightly focuses on long-term policies to ensure food security in developing countries by scaling up efforts to spur agricultural productivity, improve links from farmers to markets, and reduce risk and vulnerability. However, he argues that demographic dynamics are highly relevant to this discussion as population will reach about 7 billion in 2010 and the United Nations estimates that in approximately 35 years the population could be as high as 10 billion. With this rapid increase in global population, Kim contends, we may expect shortages in aggregate food availability and a growing threat of hunger and malnutrition in relation to food requirements. The Asian solution to the food security problem was the Green Revolution. Kim concludes that the agricultural landscape can change in unpredictable ways and that no general strategic body can pick up new agenda items and assign them to organizations. The G-20's role should be to facilitate the creation of a body independent of current institutions to avoid creating a conflict of interest which could be structured along the lines that Sourang proposes.

Inclusive Finance

In chapter 10, **Peer Stein, Bikki Randhawa, and Nina Bilandzic** present a comprehensive analysis of inclusive finance by reviewing key trends, challenges, and opportunities for advancing financial inclusion and propose major high-level policy recommendations for consideration by the G-20. They show that the global gap in access to and use of financial services remains a challenge. Two-thirds of the adult population in developing countries, or 2.7 billion people, lack access to basic formal financial services, such as savings or checking accounts. The largest share of the unbanked live in Sub-Saharan Africa (only 12 percent of population is banked) and South Asia (only 24 percent of population is banked).

Stein and his co-authors argue that the gap in access to finance is equally important for small and medium enterprises (SMEs), which are the main drivers of job creation in emerging markets. SMEs are 30 percent more likely than large firms to rate financing constraints as a major obstacle to growth. Small firms are at the highest disadvantage: only 18 percent of small enterprises in low-income countries use finance. SMEs represent a key target segment for financial inclusion, as they are one of the largest employers in emerging markets (contributing to GDP growth) and they employ a growing share of women (25–40 percent worldwide), who rank high among the most financially disadvantaged groups.

The empirical evidence the authors present suggests that improved access to finance is not only pro-growth but also pro-poor, reducing income inequality and poverty. Finance performs two key functions beneficial to households and firms: risk management and intertemporal consumption smoothing. These functions yield multiple direct and indirect benefits to households and firms, allowing them to take advantage of investment opportunities, smooth their consumption, manage day-to-day resources, and insure themselves against future uncertainty.

The authors argue that financial inclusion needs to go beyond credit: the need for safe and secure savings and payment products is almost universal, and the demand for insurance and international remittances is high. Several emerging-market countries have demonstrated commitment and urgency around the goal of universal access to financial services. More remains to be done in advancing financial inclusion in a responsible fashion globally through consumer protection regulations, industry practices, and financial capability training.

The authors explain that financial inclusion needs to leverage all financial services providers. There is much to learn from the microfinance industry, as well as from recent innovations in delivery of financial services outside of conventional bank branches. Closing the financial services gap will require significant commitment from a wide variety of bank and nonbank financial institutions, including commercial banks, credit unions, savings banks, microfinance institutions, postal banks, and mobile banking operators.

To make progress and build the foundations for sustainable growth, the authors recommend that the G-20 convene a global partnership with the relevant stakeholders around a common global financial goal that focuses not only on credit but also on a range of financial products: payments, savings, remittances, and insurance. The target would step up pressure to close existing data gaps—in particular the SME finance gap and policy-related indicators—ensuring that the basic elements are in place to measure annual progress against the target. The implementation will require an integrated and concerted effort leveraging four key drivers: the global development community, the financial services industry, national governments, and centers for knowledge sharing. The G-20 is in a unique position to convene those forces for economic development and complement the effort with the creation of a funding mechanism to provide the resources needed for the implementation of the financial inclusion agenda.

A focus on inclusive financial services promotes a variety of development goals, including technological innovation, which is required for adequate financial service delivery, North-South and South-South knowledge sharing, consumer financial education, public-private coordination, and infrastructure development. However, the authors note that the mandate for financial inclusion must be funded if the issue is to be addressed.

In the discussion, **Alfred Hannig** indicates that he and his colleagues at the Alliance for Financial Inclusion believe that most of the successful policy approaches for increasing access to financial services for the poor have been innovated in developing countries. The recognition of financial inclusion innovations spearheaded by developing-country policy makers from both G-20 and non–G-20 countries is therefore critical. He recommends a new "polylateral development" approach. Possible actions that could be taken to expand financial inclusion include targets self-set by countries and new funding mechanisms that can serve the different countries' needs. Hannig also welcomes the particular emphasis that the G-20 is putting on non–G-20 developing countries. He concludes by highlighting three possible actions that the G-20 could take: establish a global partnership for financial inclusion, create a global funding mechanism under this partnership, and encourage developing countries to set their own targets for financial inclusion that can be combined and used as global targets for 2020.

Yongbeom Kim commends Stein and his co-authors for a comprehensive treatment of the topic and argues strongly for the incorporation of financial inclusion as a key agenda item for the G-20. He provides the following evidence in support of his position:

First, financial inclusion is important because it leads to balanced economic growth. In this context, the potential for economic growth is maximized when existing resources are efficiently and optimally allocated. To achieve balanced growth, the current underserved population must have an opportunity to access and make use of the available resources in a safe environment.

Second, financial inclusion also facilitates innovation as it is often led by entrepreneurs and SMEs, which are key drivers of enhanced productivity and growth. An inclusive financial system that goes beyond credit and includes access to a broad range of appropriate financial services is one of the most important conditions for unlocking the huge potential of currently untapped growth.

Third, a substantial body of literature shows that financial inclusion is a cornerstone for economic development. What is needed to facilitate economic growth in poor countries is not more capital but rather the transformation of so-called dead assets into liquid capital to provide better access to finance.

Finally, financial inclusion provides the counterbalance required against the tightening of financial regulation that is currently under way. In response to the recent crisis, national regulators and international standard setters have been concentrating their efforts on tightening financial regulations. It is crucial to maintain the goal of financial inclusion at a time when stricter regulation is being introduced so that the overall financial system can balance the need for greater stability with the need to ensure greater accessibility.

However, Kim argues that a more nuanced and specialized market structure is needed that allows large, medium, and small banks and nonbank financial institutions to cater to customers of different income brackets with affordable and tailor-made financial products.

Princess Máxima of the Netherlands agrees with the authors and discussants that financial inclusion is a critically important component of stability, equitable economic growth, and poverty reduction. She defines financial inclusion as universal access, at a reasonable cost, to a wide range of financial services for everyone needing them, provided by a number of sound and sustainable institutions.

She commends the G-20 for its leadership on financial inclusion and for mandating a financial inclusion experts group to identify lessons learned on innovative approaches for improving access and to focus on access by SMEs. Innovations in the field are already drastically reducing the costs of delivery and creating products catering to the unbanked. Services like M-Pesa in Kenya, which uses mobile phones to make payments and deposit small savings, demonstrate that financial services that poor individuals and businesses need can be delivered in an affordable and sustainable manner. She argues that, to make progress and build the foundations for sustainable growth, the G-20 should convene a global partnership with the relevant stakeholders around a common global financial goal that could be approached from both a bottom-up and a top-down perspective with different advantages and motivations for progress. The G-20 is in a unique position to bring together major drivers of finance—the financial services industry, national governments, the global development community, and centers for knowledge sharing—and to complement implementation with political and policy leadership. Solutions need to be sustainable and to provide accessible and affordable financial products that poor clients and SMEs need. Developing a successful global mechanism for cross-country learning, both North-South and South-South, would advance that goal. Princess Máxima concluded her remarks by underscoring the importance of G-20 leadership, noting that financial inclusion requires long-term commitment by all stakeholders.

The Road Ahead: The G-20 Development Agenda

Despite the recent financial instability, global economic recovery is continuing. In many developing countries, the economic prospects remain strong, albeit growth is likely to move at a more moderate pace than before. Recovery in advanced economies, however, remains fragile. Unemployment continues to be high in many advanced and developing countries, and financial markets remain vulnerable. Moreover, according to recent forecasts by both the World Bank and the IMF, the near-term global outlook shows significant risks. Nevertheless, developing countries as a group—especially the developing-country members of the G-20—have sustained their growth by strengthening domestic demand and restoring activity in international trade. Major economies in Asia (such as China, India, and Indonesia), as well a few other economies including Brazil, have continued to act as growth poles and are helping sustain the global recovery. Given the critical importance of economic growth to continued global recovery, to generating employment in both developed and developing countries, to reducing poverty, and to making progress in achieving the MDGs (particularly in low-income countries), the framework for "strong, sustainable, and balanced growth" must remain one of the central elements of the G-20 agenda going forward.

The G-20 is the premier global economic forum, and its development approach is consistent with its core mandate of international economic and financial cooperation. It is in this context that the newly established G-20 Working Group on Development has focused its activity on the economic growth aspects of development—particularly economic growth in low-income countries. The recognition that economic growth is needed for achieving sustained poverty reduction is a critical component in closing the development gap.

Key Messages

The Korea–World Bank High Level Conference "Postcrisis Growth and Development"—followed by the work of Korea's Presidential Committee for the G-20 Seoul Summit, the G-20 members, and a number of international financial institutions, including the World Bank, the UN agencies, the OECD, and regional development banks—has resulted in broad support for integrating *critical development issues*, as well as human development issues more broadly, into the G-20 agenda.

Also endorsed is the concept of *multipolar growth*, with the conference concluding with a strong consensus that developing countries, whose share of global output, trade, FDI, and population has been rising relative to those of advanced economies, have an important role to play in the global recovery and will become increasingly more important in the world economy. However, another key message from the conference and follow-up work is that for developing countries, including low-income countries, to play a more important role in the global economy, there must be a greater effort to remove obstacles to growth through trade, infrastructure development, progress on the MDGs, increased food security, and enhanced access to finance—all of which require substantial and continued FDI, as well as innovative financing from international financial institutions, ODA, and domestic resources. Knowledge sharing (South-South, as well as North-South and South-North) will play a key role.

The focus on economic growth-cum-development fits well with the G-20 framework. The main challenge facing the G-20 is how to help the world economy achieve "strong, sustainable, and balanced economic growth" that is underpinned by stronger and more diversified sources of aggregate regional and global demand. As discussed earlier in this overview, the G-20 can help foster stronger growth in developing countries by focusing on the following areas within its mandate and development agenda:

- Provision of *infrastructure* is critical to growth and sustainability over the long term in both middle- and low-income countries. To facilitate such efforts, the G-20 could develop action plans for increasing public and private financing of infrastructure, as well as for improving its efficiency and *environmental sustainability,* and for providing increased technical and financial assistance to developing countries to improve infrastructure and energy efficiency.
- Recognizing the importance of trade capacity and market access for economic growth, the G-20 summit in Seoul should consider measures, such as aid for trade and "duty free, quota free" access for the least-developed countries. As the global economy recovers from the crisis, trade is one of the most powerful mechanisms for helping developing countries (as well as advanced economies) recover more quickly from the adverse effects of the external shock that hit them.
- Given the critical importance of agricultural productivity to economic growth and the fight against malnutrition in developing countries, multilateral action is needed. Among the actions that the G-20 can and should undertake in this area is to provide additional resources to scale-up *agricultural and food security* assistance to eligible developing countries.
- Highly inequitable and lopsided *access to finance* and financial services is one of the most serious challenges developing countries face, particularly the poorer countries. Greater access to finance will have a strong positive impact on economic growth and employment generation, which is why it has a central place on the G-20 agenda. The G-20 could contribute to progress and to building the foundations for sustainable growth by convening a global partnership around a common global financial goal with the relevant stakeholders that should focus not only on credit but also on a range of financial products: payments, savings, remittances, and insurance.

Strong and balanced economic growth is also key to speeding up progress and achieving the MDGs. The G-20 must promote an agenda that provides a robust platform for the MDGs and thereby facilitate economic and human development goals in low-income countries.

The strong links between balanced and sustainable economic growth, sectoral developments (for example, infrastructure, health, and education), and the MDGs indicate that the critical areas of potential intervention by the G-20 are likely to have important and positive impacts on developing countries, particularly the poorer non–G-20 developing countries. In fact, the key messages in the World Bank's recent report on the MDGs prepared for the UN MDG summit (World Bank 2010c) are fully consistent with the key messages of this conference:

- Achieving the MDGs requires a vibrant global economy, powered by strong, sustainable, *multipolar growth*, underpinned by sound policies and country reforms.
- Improving access for the poor to *health, education, affordable food, trade, finance*, and *basic infrastructure* is essential to accelerating progress toward the MDGs.
- Developing countries need to continue to strengthen *resilience to global volatility* to protect gains and sustain progress toward the MDGs.
- The international community must renew its commitment to reach the "bottom billion," particularly those in *fragile and conflict-affected countries*.
- Global support for a *comprehensive development agenda*—including through the G-20 process—is critical.

In the wake of the recent global crisis, and with the 2015 deadline approaching, business as usual is not enough to meet the MDGs. The international community needs to do more by providing the needed financing and ensuring that increased funds translate into results on the ground. The global financial crisis has prevented many donor countries from meeting their earlier aid commitments to low-income countries.

The recovery in advanced countries is likely to take some time, given the depth and scale of their recent economic and financial setbacks. Therefore, it is unlikely in the short run that advanced countries will provide the needed stimulus to the global economy through increased aggregate demand. At the same time, the growing consumption by large middle-income countries, combined with investment flows to low-income countries, points to a new direction in the global economy, as developing countries together act as a major source of additional global demand. Increasing growth in low-income countries should thus be viewed as an integral part of the larger G-20 framework objective to achieve a more resilient and balanced global economy. Low-income countries could therefore become an important part of the emerging multipolar world.

Rethinking Development Policy?

The *Growth Commission Report* identified "five striking points of resemblance" among all 13 highly successful countries in the world, that, for more than 25 years, had grown at rates exceeding 7 percent a year: openness to the global economy, macroeconomic stability, high saving and investment rates, reliance on a functioning market system, and credible leadership and good governance (Commission on Growth and Development 2009). Although these generalizations remain valid, the current crisis has resulted in serious rethinking of macro-financial policies, as well as some aspects of development policy. On the latter, new directions in research on development economics are emerging. For example, four significant questions need to be addressed (World Bank 2010d):

- Understanding the roles of states, markets, and the private sector in promoting economic and structural transformation[9]
- Knowing how to broaden access to economic opportunities to ensure rapid poverty reduction and human development
- Meeting new global challenges, many related to dealing with uninsured risks facing economies and people (for example, the financial crisis and climate change)
- Formulating a broader approach to assessing development effectiveness.

However, a preliminary assessment of possible lessons from the crisis does not point toward a revolution in policy. Instead, the crisis may help accelerate the shift toward a more pragmatic policy framework that continues to give primacy to a competitive private sector and a dynamic export sector as drivers of growth, employment, and productivity.

Therefore, in the aftermath of the largest global economic crisis since the Great Depression, it is not surprising that considerable attention has been directed toward extracting the appropriate lessons from the experience, both what went wrong and what needs to be done differently in the future. One immediate outcome of the crisis may be a more realistic view of global economic and financial conditions.

In the face of glaring failures of markets and governments, developed-country economists and policy makers may think twice before assuming that either markets or states function smoothly in a developing-country context. This restraint could reinforce the trend in development thinking toward a post-Washington Consensus. Reasoning along these lines may still be strongly market oriented but also "less ideological, more pragmatic, and more empirically grounded" (Rogers 2010).

It will undoubtedly take time—several years, perhaps longer—for researchers and policy analysts to sift through the events more carefully. Nevertheless, in a few areas where action and rethinking are necessary or are already underway, it may be possible to identify specific policy measures, at both the country and the international level, that will enhance the prospects for strong, sustainable, and balanced growth.

Conclusion: Postcrisis Growth and Development

The conference in Busan ended with a roundtable discussion of policy makers and practitioners (a summary of these discussions is presented in box 1). Clearly, policy makers with diverse views have reached a strong consensus on a development agenda that could be considered and supported by the G-20 members when they meet in Seoul in November 2010.

The key policy recommendations coming out of this conference's sessions on the key pillars of development—namely, aid for trade, food security, infrastructure and sustainable development, and inclusive finance—are presented at the end of each chapter and summarized in appendix A.

All roundtable panelists were concerned that the actionable topics floated by the G-20 members would sink when faced with obstacles in the implementation phase. So far the G-20 has been successful in delivering not just rhetoric but also concrete commitments. At the three previous G-20 summits in 2008–09, members agreed on implementable measures and tangible deliverables. In its role as the catalyst for financial regulatory reform, the G-20 issued 47 specific agenda items and timetables upon which countries agreed to deliver. The G-20's work on

Box 1. A Summary of the Roundtable Policy Discussion

The conference concluded with a roundtable discussion, chaired by **Il SaKong**, Chairman of the Presidential Committee for the G-20 Seoul Summit. **Trevor Manuel**, minister in the presidency, South African National Planning Commission, began by discussing the importance of Africa, asking, "What is in this for the least-developed continent in the world?" and questioned the scope of the G-20 development mandate, encouraging the participants to be realistic about which targets are achievable. He drew attention to the topic of food security as it relates to energy and the trade-off between using crops for food as opposed to biofuel production. He stressed that the G-20 must work on the real economic issues that will benefit developing countries the most.

Princess Máxima of the Netherlands said that financial inclusion is an important component of stability and growth, particularly for generating jobs and increasing opportunity. Inclusive financial systems are critical to an efficient and stable financial infrastructure. Financial inclusion enables and accelerates progress on development goals, such as education and reducing rural poverty. She emphasized that the mandate for financial inclusion must be supported with policy leadership and funds and that the global community must move to implement the G-20 development agenda with a sense of urgency.

Jomo Kwame Sundaram of the United Nations suggested that the G-20, with the help of the large multilateral development organizations, should focus on three priorities: first, fostering and promoting international cooperation on tax initiatives, as the existing arrangements are biased toward developed-country concerns; second, working on sovereign debt issues by instituting a multilateral framework that balances the needs of the creditor and the borrower; and, third, ensuring that the "Green New Deal" is a global new deal that adequately balances the food security and climate change issues.

Ernesto Zedillo, former president of Mexico, discussed aid for trade and commented that trade is only part of the solution for global growth but that it plays a very important role. He cited preliminary numbers that suggest that in 2008 US$40 billion of all aid could be linked to aid for trade. He adamantly stressed the importance of working through the WTO on trade issues, rather than through other bodies that may have overlapping mandates. In particular, he argued that the Doha Round is the place to agree on agricultural reform because "there can be no real food security without addressing the distortions created by agricultural support programs," particularly subsidies in the United States and the European Union. Successfully concluding the Doha Round is vital to enhancing global trade and maintaining the credibility of the trading system.

Reza Moghadam of the IMF spoke about how strong growth in low-income countries depends on growth-friendly macroeconomic policies in these countries, together with robust global growth—in which the G-20 has a major role to play. The G-20 Mutual Assessment Process is a critical part of improving global coordination of economic policies to achieve strong, sustainable, and balanced growth. The challenge will be to agree on policies that collectively lead to a better outcome than policies pursued by each country individually. He also underlined that in scaling up investment to address critical growth bottlenecks, low-income countries need to strengthen their capacity to invest efficiently and borrow safely, as well as to improve public financial management. He called on international organizations and donors to make available large-scale concessional financing, and encouraged G-20 members to provide technical assistance and support for capacity building. He emphasized the importance of building resilience to shocks, including through social safety nets.

(*continued*)

Box 1. A Summary of the Roundtable Policy Discussion *(continued)*

Justin Yifu Lin of the World Bank spoke about multiple growth poles and discussed the G-20's role in facilitating coordinated policy responses to crisis management, which helped avert worst-case scenarios for the global economy. He noted that the G-20's mandate in the postcrisis global environment must include promoting sustainable and inclusive growth in developing countries by removing major bottlenecks to growth and related issues. He emphasized the importance of infrastructure, education and training, knowledge sharing (including South-South), and financial inclusion, among others.

Changyong Rhee, the G-20 Sherpa from Korea, made the point that the G-20's mandate must be different from that of the G-8 and others. He asked how, if slow growth and fiscal consolidation are necessary, can we generate global demand? For their part, the Sherpas have already established a list of key development issues—including aid for trade, food security, infrastructure, inclusive finance, and others. The hope for the Seoul summit is to establish overarching development principles and finalize the list of G-20 issues for its development agenda. From that list, members will select several items for concrete delivery. Rhee stressed that the Korean government is committed to delivering on the developmental outcomes.

Il SaKong concluded by saying that inclusion of development in the Seoul agenda was not initially supported by all G-20 members but that it now has the full support of the body. He believes the development community must be very strategic in sequencing policy priorities for development. He emphasized that it is important to think past the Seoul summit, since the development agenda will likely remain on the table. In that regard, he assured the conference that France, the 2011 G-20 chair, will work closely with Korea to ensure that development is part of the ongoing discussions. Since G-20 members have already achieved so much progress on the development front, SaKong is optimistic about the future of the development agenda within the G-20.

Source: Authors. Based on the proceedings of the Korea–World Bank High Level Conference in Busan, Korea, June 3–4, 2010.

development will likely take this form, setting a clear multiyear development agenda that will keep the G-20 accountable and effective.

Despite some initial misgivings, all G-20 members are fully supportive of including development issues on the Seoul G-20 agenda, built around the key development pillars identified by the G-20: infrastructure, private investment and job creation, knowledge sharing, human resources development, trade, financial inclusion, governance, growth resilience, and food security. At the June 2010 Toronto summit, G-20 leaders endorsed the creation of a working group that would spearhead efforts to further define the G-20 development agenda and specify the means for achieving the specific objectives.

The overall outlook for progress on the G-20 development agenda is good: G-20 members have already demonstrated a capacity to work together, as evidenced by the cooperative efforts on the Mutual Assessment Process as part of the implementation of the G-20 framework for strong, sustainable, and balanced growth. Early success in this regard can help solidify the G-20's development role, ensuring that development issues remain an integral part of the G-20 agenda in the years to come and continue to be championed by other G-20 members.

Sometimes it takes adversity to realize that the world has changed. It took the financial crisis for the world to wake up to the fact that developing countries, particularly large middle-income countries like China and India, are fully integrated into the global financial and economic system. Hundreds of millions of people have entered the market economy, and the global economic landscape no longer has a fixed center of gravity but rather a set of magnetic poles that are attracting investment, trade, and migration and are generating growth at different points around the globe.

As indicated above, however, the global recovery is fragile. If the advanced economies were to experience a "double-dip" recession or other large-scale economic setback, it would be devastating for development progress. For developing countries that are less resilient to economic shocks, experiencing another crisis in close proximity could lead to deeper negative effects on growth and human well-being. Thus, global economic policy coordination is likely to become even more important. For global growth to be sustained and for poverty reduction to continue in both low- and middle-income countries, a number of international policy actions will be necessary in aid for trade, infrastructure investment, food security, inclusive finance, and the MDGs.

As evidenced by the discussion of development challenges raised in this volume, it is of the utmost importance not only for developing-country governments to address these issues (in partnership with the private sector) but also for the G-20 to offer a coordinated response. The G-20's development agenda stems from its core mandate of international economic and financial cooperation. The membership is, therefore, uniquely positioned to address constraints to economic growth in low-income countries and take the lead in sketching out the future landscape for economic development. As the recovery matures, the longer-term, inclusive growth agenda should be at the center of G-20 policy coordination, since economic interdependence between the developed and the developing world is likely to increase, as well as between developing countries themselves, in trade, finance, migration, and infrastructure, among other issues. Furthermore, the body's convening power and composition make it the ideal protagonist in global governance and multilateralism.

All the issues taken up in this volume are linked and are essential components of sustained economic growth in the developing world. Without adequate infrastructure, inclusive access to financial services, more open trade, improved food security, and progress toward the MDGs, development gaps will persist. Addressing these issues will require North-South, and increasingly South-South, learning, interaction, and coordination.

Everyone recognizes that this is a heavy agenda. Some prioritization has already taken place in the selection of development-related topics for this volume. What will likely prove most difficult is identifying and arriving at consensus on the next steps forward, which include the implementation of action items and recommendations. It is therefore necessary to be strategic about the approach, especially in the sequencing of priorities. Is it best to reach for the low-hanging fruit that can improve lives immediately? Or tackle more systemic issues? When the G-20 convenes in Seoul in November 2010, some broad questions will still need to be answered:

- Can the G-20 continue to be effective in a postcrisis environment?
- What is the scope of the G-20 mandate on development issues, and who defines the future agenda for action?
- What criteria should be used to determine which issues end up on that agenda?
- What targets are achievable and realistic, and who will implement and monitor their progress?
- What kind of assistance can the G-20 provide for the least-developed, fragile, and conflict-afflicted countries?

This is the time to be visionary about how the world would look in the medium and long term. What are economic best practices, and where can developing countries look for inspiration and guidance? How can developed and developing countries cooperate on sensitive issues and find ways to come together over the provision of global goods? In the face of scarce resources and fiscal constraints, priorities and trade-offs are inevitable, but where and how are governments and donors willing to make cuts?

Elaborating this vision and filling in the details will not occur overnight. But the chapters and discussion presented in this volume drawn from the Korea–World Bank High Level Conference in Busan provide an initial step in that direction. When G-20 leaders meet in Seoul, they will continue to define and refine the G-20's development agenda and recommendations for action going forward, which in turn will lay the groundwork for faster progress toward key global development objectives.

Notes

1. The G-7 includes Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.
2. The G-20 includes the G-7 plus Argentina, Australia, Brazil, China, India, Indonesia, Republic of Korea, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, and the European Union.
3. In regard to the development issues, the declaration states: "We agree to establish a Working Group on Development and mandate it to elaborate, consistent with the G-20's focus on measures to promote economic growth and resilience, a development agenda and multi-year action plans to be adopted at the Seoul Summit" ("Toronto Summit Declaration 2010," 9).
4. The paper by Sudaram in chapter 6 of this book addresses the role of Bretton Woods in global governance.
5. The General Agreement on Tariffs and Trade that emerged in 1947 became the World Trade Organization in 1995.
6. The Financial Sector Assessment Program, a joint IMF and World Bank effort introduced in May 1999, aims to increase the effectiveness of efforts to promote the soundness of financial systems in member countries.
7. The *middle-income trap* refers to countries that grow rapidly for a couple of decades and then stall, or continue growing at a significantly slower pace, a circumstance that has affected a number of countries in Latin America, such as Brazil and Mexico. As a result, these countries are not able to jump to be a high-income country.
8. The Economic and Social Council of the United Nations used the following three criteria for the identification of least-developed countries: (a) a low-income

criterion, based on a three-year average estimate of the gross national income per capita (under US$750 for inclusion; above US$900 for graduation); (b) a human resource weakness criterion, involving a composite human assets index based on nutrition, health, education, and adult literacy indicators; and (c) an economic vulnerability criterion, involving a composite economic vulnerability index based on indicators of the instability of agricultural production, the instability of exports of goods and services, the economic importance of nontraditional activities, merchandise export concentration, the handicap of economic smallness, and the percentage of population displaced by natural disasters.

9. From the perspective of "new structural economics," the first three of the Growth Commission's stylized facts are the results of a comparative advantage following strategy at each stage of development, which allows developing economies to be open, competitive, and well positioned to exploit the opportunities of globalization. Such a strategy also generates high profitability and high rate of return on investment. The fourth stylized fact is a necessary condition for an economy to follow comparative advantage in its development. The last point is the characteristics of a facilitating state and a condition for a country to adopt a development strategy that is consistent with its comparative advantage. For a discussion of new structural economics, see Lin 2010.

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