Overseas Development Institute

Policy brief

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The G-20 in 2010: cementing the BRICKs of development

Key points

- The G-20 has no defined role for the private sector and no formal way to address the interests of the poorest countries
- The G-20 meeting in Korea is a chance to cement the BRICKs (Brazil, Russia, India, China and Korea) into the G-20 development architecture and consider the interests of low-income countries
- The G-20 lacks a business and development forum to grasp opportunities to invest in low-income countries

'G-20 economic policies are crucial to promote an international enabling environment for development'

The G-20, which began as a financial and technical response to the East Asian financial crisis of 1997, became the epicentre of global economic governance in 2009 when its leaders had to respond to the worst financial and economic crisis for 60 years.

In line with the suggestions in ODI's *Development Charter for the G-20*, the G-20 meeting in London in April 2009 provided more liquidity for the international financial institutions (IFIs) and regional development banks (RDBs), and this has benefited poor countries. Sub-Saharan Africa saw outlays from the International Monetary Fund increase fivefold to $5 billion in 2009. The G-20 also cautioned against protectionism with much success. However, there is unfinished business. For example, there is no clear role in the G-20 for the private sector and there is no formalised way of considering the interests of the poorest countries.

There will be two G-20 leader meetings later this year, in Toronto in June and in Seoul in November. Such gatherings present important opportunities to promote the role of the G-20 in strong, sustainable and balanced growth; to clarify how it will deal with development issues and relate to low-income countries (LICs); and how it will liaise with business and civil society actors.

Very importantly, the Korea meeting could also highlight the global and developmental role of emerging markets such as the BRICKs (Brazil, Russia, India, China and Korea).

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This policy brief draws on the work of ODI's task force on the global financial crisis:

http://www.odi.org.uk/themes/financial-crisis

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'Beyond aid' policies

At national level, flexible and responsive institutions, good policies and economic fundamentals such as skills and infrastructure can drive growth in low-income countries. But G-20 economic policies are crucial to promote an international enabling environment for development. There are plenty of such 'beyond aid' policies relevant for low-income countries.

For example, the level and nature of the G-20 fiscal stimulus matter for development. Our research suggests that the coordinated fiscal stimulus by the G-20 in 2009 may have restored growth in the G-20 and, through global linkages, may have increased incomes in Africa by up to 2.5% in two years.

Exchange rates amongst the G-20 will also have third country effects. Global modelling suggests that a 10% appreciation of the Chinese Renminbi exchange rate could promote African growth by some 0.25% of GDP. On the other hand, proposed G-20 rules on financial markets aimed at a more stable financial sector could make it harder for private sector development finance institutions (DFIs) and reduce the incentives for international banks to provide capital flows to poor countries.

There are further examples of the potential development impact of G-20 policy coherence. A rebalancing by reducing current account surpluses and deficits will affect low-income countries.

The current shift in global economic activity towards the emerging markets, and Asia in particular, has led to a quicker recovery for low-income countries through increased trade and investment opportunities. Africa's investor landscape is changing rapidly. However, there are questions about the long-term effects on Africa's manufacturing capabilities and industrial development as raw material exports and manufactured imports grow. Whether emerging market positions in global negotiations correspond well to low-income country objectives remains a question.

Finally, whilst the G-20 is not an environmental body, it can address the economic dimensions of climate change such as reducing energy subsidies (perhaps coupled with mitigating support when withdrawing progressive subsidies) and providing climate finance additional to planned development cooperation to promote crisis-resilient growth.

Policy suggestions

- LICs need a forum to discuss the development impact of G-20 policies and cement the BRICKs into the G-20's development architecture.
- There are other development issues, such as duty-free, quota-free access or support for shock facilities that can address global crises, and that that can be explored by the G-20.
- The G-20 currently lacks, and could benefit from, a business and development forum to consider opportunities to invest in LICs whilst promoting the use of codes and standards, such as the global compact, the Extractive Industries Transparency Initiative, corporate social responsibility, and so on.
- The G-20 could also consider supporting private sector DFIs (whose business contracted in 2009) as the private sector will, ultimately, have to take over the global recovery from the public sector.

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References and useful resources

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