

Emerging Markets Forum 2017 Global meeting

Recent Threats to Multilateralism
Causes and Possible Remedies

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The cause of mistrust

What has discredited multilateralism

- ▶ Remarkable achievements but insufficient inclusiveness: failures in getting winners of globalization+ technological change to compensate losers and in preventing further increase in income and wealth disparities. Do not look at averages but at medians and at how the situation has evolved over the last ten years for groups in the higher or lower deciles. The losers feel also threatened in their identity.
- ▶ Achilles heel of globalization (including the EU) : in a context of financial revolution and unbridled capital market liberalization, difficult to get the rich and the multinationals to pay their fair share of taxation; regulatory, social, environmental and fiscal dumping.
- ▶ Two great destabilizers: Irak war and 2007-2008 financial crisis.
- ▶ The problem is not too much multilateralism but too little, ineffective/unbalanced multilateralism as well as obstruction and lack of leadership at the level of national States. This forsters populism and the illusion that nationalism is the solution.

The singular failure of reform of the International Monetary System since the collapse of Bretton Woods

- ▶ The Triffin dilemma has not been seriously addressed. Short term considerations of the national economy of the country issuing the global currency always overriding the needs of the global economy.
- ▶ Illusion that floating exchange rates will solve the problem. Major exchange rates misalignments. Huge and volatile private capital flows dwarfing trade in determination of exchange rates.
- ▶ International monetary cooperation is weak. Weakness of IMF multilateral surveillance when related to major industrial countries.
- ▶ All attempts to rebuild the system have faced opposition of the G-7 (see Michel Camdessus Memoirs on Madrid 1994). Unused potential of SDR. No serious attention to Palais Royal Initiative.
- ▶ The in-built destabilizer of the current non-system is a key factor at the origin of the 2007-2008 financial crisis and is still with us : lack of anchor allowing huge balance of payments imbalances, proliferation of international liquidities, destabilizing short term capital flows and dangerous spillovers of monetary policy changes.
- ▶ Dangerous complacency that a multipolar exchange reserves system would be more stable.
- ▶ The system is not only inefficient; it is profoundly inequitable.
- ▶ In the absence of reform and anticipating potential new crises, race of emerging countries towards building ever more exchange reserves, complemented by regional and global safety net arrangements. This is not the solution.

Reform of the International Monetary System is cornerstone for the future of multilateralism

- ▶ Importance of managing global liquidity as a global public good , calibrating it to the needs of the global economy.
- ▶ Rational solution is to move to multilateral currency reserve system, with multilateral drawing rights (MDRs) issued by an IMF transformed into a global central bank, endowed with the necessary legal and financial instruments to regulate liquidity.
- ▶ This requires fundamental reform of the IMF, enhancing its surveillance role and strengthening its legitimacy and governance (see recommendations of Palais Royal Initiative and Sequenced Agenda proposed last year by Michel Camdessus and Anoop Singh in Chapter 4 of Emerging Markets Forum Report)
- ▶ If Bretton Woods II negotiations are not possible in the current political context, the second best is to enhance the use of the SDR.
- ▶ Danger of the current situation but reasons for hope : ideas on the table, China's attitude, building of intellectual and political coalitions, particularly with emerging markets.

Broadening SDR use as a lever for gradual IMS reform

- ▶ Change anachronic name
- ▶ Use SDR more actively in the official sector life
- ▶ Reform allocation regime : general and targeted allocations
- ▶ Enable IMF to issue SDRs as International Lender of Last Resort
- ▶ Revival of Substitution Account idea for orderly diversification of reserves
- ▶ Make the SDR more attractive and user-friendly
- ▶ Promote private SDR market : clearing arrangements, legal and administrative rules, develop private SDR operations by public sector (e.g. World Bank and China SDR bond issues)

Given the withdrawal of US support, could the EU become the standard bearer of multilateralism

- ▶ European Commission « Reflection Paper on Harnessing Globalisation » of 10 May 2017 with foreword of Commissioners Frans Timmermans and Jyrki Katainen
- ▶ Taking Stock of Globalisation and its effects : globalisation is not new but is changing fast; it is a positive force but it also brings challenges.
- ▶ Looking ahead : globalisation will look very differently by 2025; without global rules, there is a danger that the more powerful and less scrupulous countries and companies could impose their rules/interests on the weaker ones, running counter to the EU's founding values.
- ▶ Europe's external response : international cooperation to shape globalisation, economic diplomacy and instruments to ensure a level playing field.
- ▶ Europe's internal response : building resilience through better sharing of benefits and promotion of long-term competitiveness.

EU's external response

- ▶ The EU is already a force for a fairer global order : e.g. role in Paris Agreement on Climate and new WTO Agreement on Trade Facilitation.
- ▶ The EU's philosophy is to reconcile the means of globalisation - opening markets and technological progress - with its ends - protection of human rights and increased human well-being.
- ▶ The EU will continue taking the lead, projecting its values and interests and promoting a « race to the top ».
- ▶ In June 2017, EU adopted new European consensus on development, aligning its policy to the 2030 agenda for sustainable development, with broader conceptual framework + external investment plan.
- ▶ As the world's largest single market, its largest trader and investor and largest provider of development assistance, EU will be less shy at shaping the global rulebook and restoring a level playing field. Being deeply integrated into global value chains, the EU will continue to carry weight even as other powers emerge.
- ▶ EU not naive : better enforcement of existing agreements and own EU rules, proposed creation of a Multilateral Investment Court and an International Procurement Instrument, Juncker's proposal of protection against foreign direct investment in strategic sectors if no reciprocity.
- ▶ More integrated and pro-active European economic diplomacy, including cultural diplomacy

EU's internal Response

- ▶ Harnessing globalisation starts at home : act to more fairly share the benefits of globalisation in line with the principles of solidarity and sustainability.
- ▶ Robust social and education policies, key to ensuring resilience and fair distribution of wealth, taking inspiration from Germany's dual vocational training, Scandinavian flexicurity and Estonia's e-school system.
- ▶ European Structural and investment Funds
- ▶ European Globalisation Adjustment Fund
- ▶ New efforts needed to make Europe a more competitive and innovative economy (e.g. AREUS, Vanguard Initiative, intelligent Cities, new concepts of mobility and of collaborative economy, Commission's better regulation agenda taking inspiration from Denmark)
- ▶ Close partnership with Member States and more empowered regions

Conclusion

A new defining mission for the EU

« Rather than sitting back and letting globalisation shape our destinies, we have the opportunity to shape globalisation in line with our own values and interests »