Summary of the Fourth Annual OECD-EMF Forum

On April 30th, the Emerging Markets Forum gathered virtually for the 4th Annual OECD-EMF Forum to discuss the theme 'Imagining Emerging Economies in a Post-COVID World'.

Opening Session

Angel Gurria opened with remarks focusing on the brutal consequences that EMEs will face in the post-COVID world. Although some progress has been made worldwide – OECD's growth projections for 2021 were 1.5% higher than expected in December 2020 and trade and production levels were increasing, especially as China, India, and Turkey rebounded in manufacturing and construction – the future is largely uncertain and tied to vaccine rollout and distribution worldwide. Rising bond yields that could trigger reverse capital flows underscore the need to fight the virus while supporting the most vulnerable. Gurria put forth the recommendation that it is essential to create a fiscal space to build forward better. Sustainable debt relief will be needed but this will require innovation and the reallocation of resources, as well as encompassing not only low income EMEs but middle-income countries in LAC and Asia. Critical issues of concern going forward include climate change, transition, inequality, skill building and education, health, technology, and gender and young adult labor participation. It is imperative to strengthen inclusive, multilateral cooperation. A New Deal for Development that centers on co-responsibility and placing resilience and inclusion in policy making is needed. EMEs are key to the fabric of recovery.

Gurria's opening remarks were largely met with agreement on the necessary agenda and multilateral cooperation. There was particular focus on how we find tables where we can all sit together, highlighting OECD's focus on development issues and its ability to engender policy discussions between OECD and EMES (Montek Ahluwalia). Fiscal and tax reforms are key, though this will require more global coordination (Hiroshi Watanabe). Where there are divergences in country trajectories, there must be help and better coordination (Hiroshi Watanabe). New challenges present complexities for EMEs (Enrique Iglesias). A recommendation was made for an official bridge between OECDs and EMEs though an official association such as an Associate status (Suma Chakrabarti). Looking specifically at vaccinations, HDCs have much to gain from helping increase the pace of vaccinations (Linah Mohohlo). In such tumultuous times, OECD and EMF will need bold ideas to get to race to the top (Nobumitsu Hayashi).

Session 1 – Post-Pandemic World: The impact of the Pandemic on Emerging and Developing Economies

Mario Pezzini opened the session noting that there was no returning to 'normal', both with respect to the economy and society. A New Deal is needed to push aggregate demand for EMEs. It is essential to redefine our thinking on these issues. Citizens want and need a voice in the strategic vision and policies of their countries; thus, it is imperative to create a table for their voice. There needs to be renewed multilateralism going forward that incorporates multiple viewpoints, though how this transpires will need to be discussed.

In his presentation *A Post-Pandemic World: The Impact of the Pandemic on Emerging & Developing Economies*, Harinder Kholi presented that assuming the pandemic can be brought under control, eight major challenges are brought into sharp relief. Kholi presented eight pressure points in the post-COVID world – fighting inequality and reducing poverty, confronting the new debt overhang, consequences of health crises in an interconnected world, environment and climate change, ongoing technological breakthroughs, future of work, improving domestic governance, and rethinking global governance.

In response to the presentation, Mikheil Janelidze notes that in the context of the agonizing choices that were required of national and international policymakers over the course of the pandemic, the world has progressed technologically and scientifically through unprecedented global collaboration. Towards the future, the world must harness the lessons learned during the pandemic, including the roles of discrimination and unequal access in the widening gap between the developing and developed world. Janelidze points out that no full recovery can occur unless all economies recover. It is imperative that countries proactively prepare for fluctuations in commodity prices by moving up the value chain and adapting to the knowledge economy. New development opportunities will be found in knowledge workers, but this necessitates a transformation in the approach to education. With the transition to data intensive factories, data flows and revolutions will transform the global economy and the prospects of developing countries. Support from developed countries and open, non-discriminatory policies are needed to harness these opportunities. The post-COVID world will be better – supported by technology-led solutions to global problems and wider access to international knowledge and labor markets.

Considering the severe impacts developing countries faced in the pandemic, Astrid Skala-Kuhmann notes that there is greater concern surrounding the 'Lost Decade' of Development, citing the dramatic trends in increasing extreme poverty, an almost 50% decrease in FDI flows, the tremendous debt burden, and declines in remittances. The extreme inequality with regards to vaccination poses a potential threat not only of continuing the health crisis but of a global economic cost. When considering how we go forward, the rollout of Coronavirus vaccines, both in terms of distribution and of IP barriers, and the role of ODA as a potential source of financial support for health systems need to be considered. Likewise, there is a decisive role of the G20 finance track in linking recovery efforts with the promotion of a long-term strategy of transformation towards a greener and more inclusive society in developing world.

The discussion that followed centered on the need to bring EMEs to the table (Sihame Arbib) and addressed concerns over the impact of competition between major leaders (Enrique Iglesias). A rethinking of multilateral cooperation is needed as it transitions from treaty-determined multilateral institutions to a shared understanding of sensible positions. This new framework only works when anchored in global consensus on the underlying principles of the how the world works. Thus, there must be flexibility for divergence in these principles and consideration on ensuring constructive interactions (Montek Ahluwalia). There was further discussion on the need for standardization of the internalization of externalities with regards to climate. Reinforcing the authority of the IMF and the reconstruction of multilateral institutions with the aim to make them more relevant is necessary, as there is no alternative institution that can make the distinction between temporary liquidity problems and genuine solvency problems in facing the current debt crisis (Bernard Snoy).

Session 2 - Fighting Inequalities and Reducing Poverty: Addressing a major Social Impact of the Pandemic

José Fajgenbaum, in his presentation - *COVID-19 and Inequality* - began with an analysis of the impact of the pandemic on inequality between and within countries using Centennial Group's growth model. The pandemic has increased inequality between and within countries, maintaining the widening trend through at least 2030. The hardest hit countries are low-middle income and low-income countries, and those in Sub-Saharan African countries. Poverty is projected to increase as well; however, advanced countries will have removed the increases by 2030. Findings from the WB High Frequency Surveys highlight the serious consequences for human capital development. The presentation concluded with the importance of social assistance measures and the significant mitigating effects they have on poverty and income distribution; the stronger the measures the stronger the mitigation effects. An important recommendation to address inequality at the global level is the establishment of a forum that provides mutual support by sharing experiences in reducing inequality and achieving SDG Objective 10.

In response, Montek Ahluwalia stressed that more attention needs to be given to the rise of inequality and the idea that the recovery will be K-shaped - some people will do a lot better and others a lot worse (e.g., the small informal sector). To address this issue, he discussed the idea of an international mechanism or multilateral framework to respond to pandemics, particularly regarding vaccines and sharing of good practices. Most governments believe they have a moral compunction to protect the poor and provide social assistance; however, the middle-income group is often left out, and they have suffered income losses due to the pandemic as well.

Jean-Louis Sarbib, in response to the presentation, agrees with the finding that the pandemic will have a long-tail but is less optimistic about the advanced countries given the increases in child poverty in the US. Governments can be part of the problem or part of the solution. Mitigating measures can help reduce income poverty and inequality, however they are not as strong in reducing in non-income poverty and inequality. Pandemic highlighted the lack of preparedness of the multilateral system to deal with global public goods. There is a need to rethink the role of the multilateral system in the provision of these.

Session 3 – Rethinking Monetary System and Debt

In his presentation, Bernard Snoy highlighted the fact that there is too much liquidity and that the current International Monetary non-system is unsustainable. Quantitative easing, instead of simulating necessary long-term investments in the real economy, goes into investments in short-term instruments, thus generating a global liquidity trap. Inflated financial markets are unstable, exacerbated by the absence of an anchor. To neglect Triffin Dilemma will ensure we merely move from one financial crisis to the next. The solution therefore is to move from the present USD system to a multilateral reserve currency that will not be the debt of a country but of the global system. Special Drawing Rights are designed for this and can be issued by IMF, which would become a multilateral central bank issuing the safest asset. The pathway is outlined in the Palais Royale and by the EMF in 2014.

Andrew Sheng, in his presentation *Rethinking Emerging Market Debt and Development Finance*, reports that, post-COVID, global and EME debt levels are higher than ever due to the International Monetary System. Leverage of the system makes the system very fragile. A global liquidity trap, where there is excess speculative liquidity, has consequences for financial stability issues, inequality, and long-term productivity. EMEs cannot use quantitative easing and are threatened by capital flows thus they maintain massive reserves while facing a large debt overhang at a 4% interest margin, the revenue of which is more than enough to cover EME current account deficits. SDR $650 billion is welcome, but only adds liquidity. Sheng presents some possible options including managing capital flows in low- and middle-income countries, creation of a Trade Finance Facility to help SMEs and global trade finance liquidity, and an increase in MDB capital, with a leverage of 9:1, to increase MDB long-term funding for SDG needs.

Christian Ghymers points out key principles behind the flaws in the current systems. First, the Triffin dilemma shows that with N currencies and one as the focal currency, there will be an N-1 degree of freedom imposed upon the rest, creating a distortion in the global net savings flows going to the North opposed to the South who need investments to green their economies. Correcting this will create a black hole in the demand of capital flows, requiring the introduction of a multilateral instrument. Second, there is an asymmetry between the quality of safe assets, granting dollar-denominated assets a quasi-monopoly. An instable pyramid of assets with US denominated assets the only safe asset in times of crisis emerges, which can be solved by amplifying the bases by creating a multilateral safe asset.

Suma Chakrabati's response made the point that the MDBs can increase capital adequacy. The Spring meetings were disappointing with no real attention on EMEs nor a plan for debt. Further, there is a problem of a shortage of long-term flows to EMEs. To address this, there could be a reform of MDB capital adequacy limits. Two potential ideas are a two-tier adequacy approach that loosens the limits in a time of crisis or a move from nominal to risk-weighted capital requirements.

Enrique Iglesias's response to the presentation stressed three points. First, excess liquidity is worrying and there must be absorption in a productive manner. Second, it is quite impressive to see the big changes in the advice from the IMF. It must be underscored the role of MDBs in LAC and the need to recapitalize the MDBs to move them forward. Third, he reiterates the need to have a currency not linked to one country.

Michel Camdessus acknowledges that suggestions for an IMS with cooperative response has not been popular and applauds RTI who have kept the issue at the table for discussion. Thus, we must look to how we reform the IMF to become the true Lender of Last Resort and make SDR a true global currency.

Masamichi Kono's response underscores the need to go back to the basics with countries moving towards sound macro-economic policies and avoiding a buildup of FX debt obligations, promoting confidence in global markets. The mobilization of domestic resources is essential. He underscores the necessity to meet immediate needs alongside the long-term critical issues such as sustainability, equity, and biodiversity.