



2023 Global Meeting of the Emerging Markets Forum –

Marrakech, 11 October 2023

The future of multilateralism: three hard facts, three needs and one belief

Speech by François Villeroy de Galhau,

Governor of the Banque de France

Ladies and Gentlemen,

It is a great pleasure to be with you at this 2023 Global Meeting of the Emerging Markets Forum, which we had the honour to host last year in Paris. Before we start, I would like to express my strong solidarity with the Moroccan people following the terrible earthquake. We all stand by Morocco's side.

The subject of my speech is not something to rejoice about either. We are collectively witnessing a growing crisis of multilateralism, which can lead to an increasingly fragmented world. As a committed European – but not a Euro-centric –, I firmly believe that multilateralism is our shared overarching public good. Hence, we must first acknowledge that its current form is more than imperfect, and that it needs to be adapted to the evolving international realities. Today, I would like to share a few personal views – I don't pretend these are French official views – on three hard facts (A), three needs in response (B), and one hope about the future of multilateralism (C). 3+3+1 equals seven, and I wouldn't pretend to compare with the great T.E. Lawrence and his "seven pillars of wisdom"... But let us try to plant some seeds of wisdom in this troubled world.

**

A. Let me start with the three hard facts.

A1. The disease of nationalism is on the rise, and is often coupled with populism, power politics and protectionism. Its most extreme expression obviously lies in the Russian invasion of Ukraine. It has also spread to other countries in the world, and notably underpinned the rise of China. But let's acknowledge that we are all contaminated to various degrees, with the affirmation of India, or with the "America first" policy in the United States fuelling

a trade war. It acted as a driving force for Brexit in Europe, while putting the Franco-German unity to the test. One month ago, the Economist had its cover on “How paranoid nationalism corrupts”.¹ If we are not careful, the 2020s could bring us back to a situation reminiscent the darkest hours of the European history in the 1930s. The tragic events in Israel since Saturday are a very unfortunate reminder of this sad reality.

A2. The disease of nationalism is jeopardising international cooperation exactly at a time when we need it most. This is what I call the “global public goods” paradox.

Let me explain. Probably more than ever, the global community must safeguard and deliver on existential public goods: ecological transition to address climate change, pandemic preparedness, digitalisation and cybersecurity, financial stability in the face of increased global debt, to name just four of them.

These issues can only be resolved in a collective and concerted manner: none of us can tackle them alone. Meanwhile, multilateralism is in a crisis without precedent. Once a beacon of great progress, the G20 is clearly underperforming given the global challenges ahead. Despite the growing impact of climate change, I have serious concerns that this priority is at risk of fading away, as observed in the most recent G20 and international discussions, due also to the increased polarisation of political debates around climate and environmental issues in the United States. Europe is ahead; the rest of the world shouldn't lag behind – this would be my wish, my call, for the Marrakech agenda in the next days. As geopolitical rifts deepen and trust fades, it is becoming more and more difficult for the international fora – including the IMF and multilateral development banks – to deliver on their mandates. But let us be candid: multilateralism is first and foremost the victim of the Russian war, but also partially of a backlash against the predominance of the Global North and the post-WWII international order. Only a system in which each country feels legitimately represented will be viable in the long term. We need to find pragmatic ways forward: I'll come back to this later.

A3. A few lessons drawn from European cooperation. As imperfect as it is, the European Union is a historical experiment in overcoming decades of nationalist rivalry, from which we can draw three useful lessons for today's multilateral challenges.

The first relates to the **objectives** of cooperation. To bring results and cement solidarity, multilateral action should focus on limited, pragmatic and shared objectives. This was precisely the spirit of the founding fathers of Europe, as illustrated by the Schuman declaration in 1950: “[Europe] will be built through concrete achievements which first create *de facto* solidarity”.ⁱⁱ It all started with the creation of the European coal and steel community (1951) – this was not very glamorous, but concrete –, followed by the Common Agricultural Policy (1957), then the single market (1993), then the advent of the euro (1999)... and now the Green Deal (2030/2050). We should adopt a similar strategy at the international level: rather than pursuing unrealistic ambitions, we need to focus multilateral efforts on a few selected global issues, where there are clear common interests – this is what I brand “focused” or “**pragmatic multilateralism**”.

A second lesson relates to **governance**. Europe is a unique endeavour of shared governance between sovereign states, with several interesting features: (a) a powerful secretariat in the form of the European Commission; (b) a shift in its voting rules from unanimity to qualified majority on most issues in the Council of the European Union – a decision-making body that brings together ministers of Member States –, which means that no country has a veto; and (c) a clear hierarchy of legal norms, with EU law superseding that of the national laws of Member States, guaranteed by a European Court of Justice.

The third lesson relates to its **geography**. The European Union has adapted and evolved through successive enlargements to new Member States, from the six founding countries to the current 27-member union. In the process, the Union has undergone profound changes, with a notable rebalancing towards Eastern Europe. The Union has gone through these changes thanks to flexibility,

allowing for opt-in and opt-out options, or closer circles of cooperation – of which the euro area is a striking example. This is what the Bretton Woods' institutions could consider so as to remain a key forum where the Global North and the Global South meet and cooperate effectively.

**

B. In response to these three hard facts, three needs must be met.

B1. The first step is to honour our commitments on the reforms of the Bretton Woods' international financial institutions (IFIs).

Some of them are on the table already. One has been achieved: the global community has delivered on its commitment to re-channel at least USD 100 billion of SDR to the countries that need it most. The majority of these reallocations will be redirected towards the Resilience and Sustainability Trust (RST) and the Poverty Reduction and Growth Trust (PRGT) Funds, to the benefit of low-income countries. Still on the IMF, progress can hopefully be achieved on two fronts. First, we still have to find additional resources to finance the PRGT's subsidy account in a context of growing demand and higher interest rates. Second, the ongoing 16th General Review of Quotas should give the Fund more firepower, by leading to an increase in overall quotas of at least 35%. Furthermore, the Fund's governance would be improved if, as is currently discussed, a 25th chair at the Board for African countries is created.

Looking beyond the IMF, we have to move on to modernise as swiftly as possible the multilateral development banks (MDBs). The G20 Leaders' Declarationⁱⁱⁱ rightly called to enhance the financial capacity of the World Bank, and more generally to foster "better, bigger and more effective MDBs". The G20 endorsed a dedicated Roadmap which could provide MDBs with an additional capacity of around USD 200 billion over the next decade: progress will need to be closely monitored to ensure concrete implementation of the Capital Adequacy Framework recommendations so as to maximise the leverage effect of potential capital increases.

These advances should be implemented effectively and as soon as possible: there have been too many broken promises in the past. Restoring everyone's confidence in multilateralism, particularly in the South, means first and foremost, today and at long last, "walking our talk".

B2. The next step is to go beyond these measures to truly reinvigorate multilateral cooperation and address the flaws in the current system.

Multilateralism is at a crossroads, or let's say at a "Darwinian" moment:^{iv} it must evolve in order to survive or else it may die. To this end, why not start by creating a special taskforce, as an amplifier of the 2017 Eminent Persons Group, with balanced representation of the international community. This independent group would be charged with suggesting more ambitious avenues for reforms of the international financial system. Let me dream somewhat and provide some food for thought, building on the lessons of the European experience.

First, we need to move towards unquestionable fairness in the governance of the IFIs, as also advocated by the French President Emmanuel Macron.^v This means ensuring a fairer seat at the table for emerging and developing countries. At some point, a revision of the IMF's quota distribution will be inevitable. But the emerging countries that will benefit from this – including China – will have to accept common rules of the game; this includes their fair share of debt restructuring and of the financing of global public goods, starting with climate change. It could also be an opportunity to create new European constituencies on the Board of Governors. We should also consider adjusting the majority voting rules at the IMF in order to soften veto power: the Palais Royal initiative^{vi} in 2011 led by Michel Camdessus already recommended lowering the majority rule from the current 85%.

Second, the global economic governance should be formalised and given a strong political impetus, building on the G20's leading role in this area. For example, some suggested the activation of a "Council" already enshrined in the IMF's Article of Agreement, which would bring together the 24 members of the International Monetary and Financial Committee and the G20 finance ministers

and central bank governors:^{vii} the resulting body would be responsible for making strategic decisions on the international financial system.

In operational terms, this revived G20 or G24 could be provided formal rules of governance, including qualified majority voting in some areas, while a permanent secretariat could be provided by reformed IFIs (IMF and World Bank). In order to achieve concrete results, it should build on what I called “pragmatic multilateralism”, and stick to a limited agenda with a medium-term horizon (e.g. 2030). Global issues on which interests and deliverables could converge include climate change mitigation – as a canonical global public good –, debt restructuring, and pandemic preparedness.

B3. The third need relates to the functioning of the International Monetary System (IMS). Despite the end of the Bretton Woods system in the 1970s, the US dollar still plays a dominant role. Nevertheless, its decline – while very gradual – in the share of global foreign exchange reserve and the current geopolitical situation are reviving the debate about its continued role as the anchor of the IMS. But it would be worse than anything else to shift from a dollar-dominated system to a confrontational non-system. Fragmentation, especially if it is disorderly, would generate instability and inefficiency, especially from a crisis management perspective: a fragmented Global Financial Safety Net (GFSN) is an inefficient one. It would undermine convertibility of reserves, and result in inefficient and costly excessive reserve accumulation.

Having said this, let us be more positive and focus our efforts towards the “creative frontier” of a resilient and truly balanced multipolar system. The global community would be better off discussing the evolution of the IMS in a coordinated international dialogue based on a few practical guiding principles:

(i) Fostering cross-border payments and digitalisation to achieve a more efficient international system of payments, as it could represent a substantial lever for increasing trade, reducing costs and promoting integration between countries.

(ii) Developing a consistent regulatory and supervisory framework to ensure that the development of crypto-assets and private stablecoins does not undermine public confidence in the financial system.

(iii) The currencies of this multipolar system – including, of course, the euro and probably starting with those of the SDR basket – should all commit to rules of convertibility and stability: I refer in particular to a common “inflation anchor”, such as exists between the euro, the dollar, the yen and sterling of around 2%. Jean-Claude Trichet has often stressed this.^{viii}

(iv) Reviving our crisis prevention capacity, under the principles of the IMF’s Integrated Policy Framework allowing a balanced mix of tools including intervention in the currency market, and macroprudential and capital flow management measures.

**

C. The last point I would like to share with you – call it the seventh pillar of wisdom – is a strong belief. In the midst of the current shifts in the international scene, a strong Europe is instrumental for the international cooperation. It stands as a unique endeavour in which countries have freely and peacefully decided to unite their efforts, founded on the values of freedom, democracy and rule of law.^{ix} Hence, there can be no doubt who’s side we’re on when it comes to Russian aggression. But Europe is supported by a soft power based on compliance with international rules, the highest official development assistance worldwide and openness to the South. In the context of the rising rivalry between the United States and China, the European Union is building a model of non-hegemonic power but strong values: Europe has also been in the in the 20th century a pioneering model of social progress, combining lower levels of inequality with a higher level of public services, and a social safety net. It is now forging a pioneering environmental model for the 21st century. The fragmented international environment definitively needs new institutional skills... and to quote Robert Schuman again “The contribution which an organised and living Europe can bring to civilization is indispensable to the maintenance of peaceful relations”.^x

We live in the decade of decisive choices. The global order is confronted with a destructive triangle of “fragmentation/isolation/confrontation”. Let us build a more promising perspective with an alternative triangle of “competition/solidarity/cooperation”, using the words of Jacques Delors, “we need competition that stimulates, cooperation that strengthens, and solidarity that unites”.^{xi} Europe has shown that this triangle could be made reality, despite its history of rivalry and – yes – imperfection. Thank you for listening to these personal thoughts I wanted to share with you in Marrakech.

ⁱ The Economist, [How paranoid nationalism corrupts, 2nd September 2023](#).

ⁱⁱ [Schuman declaration, May 1950](#).

ⁱⁱⁱ [G20 - New Delhi Leaders' Declaration Final Adoption](#), 9 September 2023.

^{iv} [European Parliament, EPRS Ideas Paper, The future of multilateralism and strategic partnerships, September 2020](#).

^v [Speech by the President of the Republic at the Conference of Ambassadors, 28 August 2023](#).

^{vi} [Palais Royal initiative, Report, 8 February 2011](#).

^{vii} Palais Royal Initiative, *ibid*.

^{viii} Jean-Claude Trichet, The future of the international monetary and financial system, *Politique étrangère*, IFRI, 2019.

^{ix} [Consolidated version of the Treaty on European Union, article 2](#).

^x Schuman declaration, *ibid*.

^{xi} Jacques Delors, “ [The Single Market, Cornerstone of the EU](#) “, *tribune*, Notre Europe - Jacques Delors Institute, 22 November 2012.