The weakness of economic multilateralism

José Antonio Ocampo

Professor at the Columbia School of International and Public Affairs (SIPA), and Director of Political and Economic Development

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The weakness of multilateral cooperation was remarkably evident in the meetings of the G-20 and the Bretton Woods institutions last week in Washington D.C. In fact, weak international cooperation is in sharp contrast with the ambitious domestic policies that some developed countries –notably the US—has put in place. The great losers will be emerging and developing countries, for which cooperation is minimal.

The Spring meetings of the International Monetary Fund and the World Bank that took place last week will be remembered, not only for having been the first virtual meeting, but also for the poverty of the decisions adopted in the face of what the IMF's own Managing Director has called "the worst economic fallout since the Great Depression".

There have been, of course, strong words and heartfelt expressions of solidarity, beginning with the G-20 Heads of State at the end of March, who committed "to do whatever it takes and to use all available policy tools to minimize the economic and social damage from the pandemic, restore global growth, maintain market stability, and strengthen resilience". Similar sentiments were expressed in the G-20 finance ministers' statement last week.

But the multilateral actions have failed to match the words. This is in sharp contrast to the "Global Plan for Recovery and Reform" adopted by the G-20 Heads of State in London in April 2nd, 2009, which led to the most important reform of IMF credit lines in history, the largest issue of IMF's Special Drawing Rights, a capitalization and a massive increase in lending by multilateral development banks, an ambitious coordinated reform of financial prudential regulations, and the beginning of an effort to strengthen global tax cooperation.

Compared to these actions, and to the needs of emerging and developing economies, estimated by the IMF and UNCTAD at 2.5 trillion dollars, the announcements from the Spring meetings have been miniscule. Perhaps the most important one in terms of new resources has been the doubling of the IMF emergency facilities. While access can be approved speedily, they can amount to only 100 billion dollars. A short-term liquidity line has also been created by the IMF (a kind of swap credit line), but "for member countries with very strong policies and fundamentals", a rule that in the past has been applied to very few countries.

Actions in favor of low income countries have been more ambitious, and include new IMF resources, debt relief, and a debt standstill for the remaining of 2020. The World Bank has also started new lending programs for IDA countries. However, in the case of middle-income countries, where most of the poor of the world live, new lending from the World Bank has also been so far limited.

Let me add that this is all despite the excellent leadership of the IMF Managing Director, Kristalina Georgieva.

Many additional issues that have been in the public debates, were rejected or ignored during the meetings. The issue of at least 500 billion dollars of IMF’s Special Drawing Rights (SDRs) was vetoed by the United States, with the surprising support of India. In turn, the call for coordinated capital flow management measures to stop the worst flight of portfolio capital from emerging economies in history, the call on credit-rating agencies to stop making downgrades during the emergency, thus feeding into that capital flight, and the proposals for a debt standstill and restructuring for middle-income countries were all ignored. And there has been no call to capitalize multilateral development banks, which was critical for the recovery after the 2008-09 crisis.

Interestingly, the comparison of the policies adopted by the United States during the 2008-09 financial crisis and those embraced during the current one is striking. The fiscal package approved by Congress was more ambitious than it was then, and the Federal Reserve has been more aggressive in providing liquidity, smoothing private financial markets from turmoil, and supporting lending to small-sized firms.

At the same time, however, and in contrast to US leadership for international cooperation in 2008-09, its support for such cooperation has been limited of even adverse, including its rejection of an issue of IMF’s SDRs for the first time in history and the withdrawal of funding for the World Health Organization. The Fed relaunched its swap facilities with other central banks, but they only benefit four emerging economies (Brazil, Korea, Mexico and Singapore), and created a repo facility for countries that want to cash Treasury bonds, a facility that only benefits countries with large foreign exchange reserves.

The story of European countries has some similarities. They have adopted strong domestic fiscal packages (including the abandonment by Germany of its black zero fiscal deficit policy, long overdue), and guarantees for loans for business, including small-sized firms, and there has been a new wave of liquidity support from the European Central Bank and national central banks. They have been more supportive of multilateral action, including the issue of SDRs, but they are immersed in the old fights between the North and the South of the European Union, including over the launch of a Eurobond (the Coronabond) to support countries facing the worst effects of the crisis, with Italy and Spain as the most important examples. As President Macron has warned, the European Union may be heading into its worst crisis in history.

The ongoing economic crisis will be remembered, therefore, not only as the worst since the Great Depression, and one in which domestic policies adopted by the rich countries were ambitious, but also one in which multilateral cooperation, particularly with emerging economies, has been dismal. Multilateral action has certainly been very far from the “whatever it takes” promised the G-20 heads of state a few weeks ago.