

Multilateralism and Development

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Changing perspectives on multilateralism

- Before, global system was criticized as being unfair to developing countries and emerging markets
 - With problems of governance: insufficient voice
 - Unfair rules
 - Assistance accompanied by inappropriate conditionalities
 - Monetary and other policies of large systemic countries undertaken with little regard for consequences elsewhere
- Now the world confronts an unravelling of multilateralism
 - Undermining a rules-based trading system
 - And more broadly, international rule of law and cooperative efforts to address global problems
 - Including climate change, global health, global development
- Brute power politics is even worse than unbalanced multilateralism

Particularly problematic

- US undermining multilateral trade regime
 - Impeding appointment of appellate judges
 - Believes it has advantage in bilateral negotiations with smaller countries
 - Misconceived notions of determinants of trade balances and of the consequences of trade agreements
 - Yet “shock” to the global economy from a trade war with China could have global consequences, including to EMDC
 - US policy largely unpredictable
 - Trump has little hesitancy in going back on agreements
 - Exacerbating short-term challenges of global economy returning to “normal” after Great Recession

An aside: more bluster than reality in new agreements

- Relatively small adjustments, though mostly one-sided
- Typically reflecting certain special interest groups
 - Big pharma vs. generics
 - US hi-tech companies
- Suspicion of third party adjudication—US wants to be prosecutor, judge, and jury
- Wants short term agreements
- Focus on trade in goods (reflecting his supporters) rather than trade in services

In aggregate, emerging markets and developing countries matter

- They are the source of global growth
- They are a significant fraction of global GDP
- If they act in relative concert, can prevent exploitation that will occur in bilateral trade agreements
 - In discussion that follows, I will propose some big advocacies for like-minded countries to take up to create “institutions” that will “make multilateralism work”
- Three further warnings about undertaking bilateral deals with US:
 - Peculiar negotiation style: what is agreed by negotiator may not be accepted by Trump; what is agreed one day may not be acceptable next day
 - Ratification by Congress remains problematic
 - Especially with possibility of radical change in Congress
 - Means that there will be a state of limbo
 - Countries will have to live with enhanced uncertainty

Time of great macroeconomic uncertainty

- Returning of interest rates to normal levels is unlikely to go smoothly
 - Countries with high levels of dollar-denominated indebtedness and large current account and fiscal deficits may face difficulty
 - Turkey and Argentina harbinger of things to come
 - Natural to focus on sovereign debt, but what happened in East Asia crisis and eurocrisis provides an important warning: private sector debts can easily morph into public sector debts
 - Governments will be under pressure, but need to resist
 - Private sector needs to make full use of bankruptcy laws
 - Countries should be sure that laws are up to the task
 - Many countries have changed their debt positions quickly
 - Argentina
 - Many African countries
 - Lack of transparency of full debt position
 - New lenders, including China
 - Contract obligations

Still no adequate framework for sovereign debt resolution

- UN Principles provide good framework
- But opposition from US and a few others make it unlikely to be implemented soon
- CAC are not an effective substitute, at least for most countries
- Another example of US trying to undermine multilateralism
- With more of global savings coming from emerging markets, they (working with “coalition of willing” developed countries) should take more leadership in shaping global financial system

Further macroeconomic shocks

- Euro problems have not been resolved
 - Italy is the subject of current concern
 - If interest rates return to normal, Italy goes into crisis
 - Even without that, Italian politics will stretch Eurozone rules
 - Hungary, Poland and others are stretching EU's democratic commitment
 - Political ramifications of 2015 migration crisis and Eurozone crisis are still being felt
 - *At best*, Europe will grow slowly; at worst, new crisis

Further macroeconomic uncertainties

- US economic policies are not socially, fiscally, politically, or environmentally sustainable
 - Large increase in deficit in December 2017/January 2018
 - Short-term fiscal boost to economy—small relative to what would normally have been expected
 - Not designed to provide long-term sustainable growth
 - Economic slowdown/downturn expected 2019/2020
 - If Democrats get elected, there will be large changes to tax laws, adding another dimension of uncertainty

Emerging market and developing country risk

- Large flows from abroad to finance US deficit may drive up global interest rates, reinforcing concerns in emerging markets
 - Another example of “water going uphill,” money going from poor countries to rich countries
 - Concerns are especially strong in countries where inward flow of funds helped create bubbles
 - But emerging market countries with high liquidity, that have played a disproportionate role for investors looking for a position in emerging markets, may also face turmoil
 - With so many countries so open, there is also risk of domestic investors participating in capital flight
- So far, contagion is limited—but can’t bet on it going forward
- Countries need to think about **being prepared**—using full set of instruments, including capital account management techniques
 - Changed IMF position
 - Not just on capital inflows, but also capital outflows
 - Use of price and non-price instruments, including temporary taxes

Strengthening the framework for finance for development

- Taxation
- Private flows
 - Investment agreements
 - Debt (better debt resolution)
 - Role of MDB
- Public flows
 - A global reserve system
 - A new climate bank
- Curbing reverse flows
 - Tax havens and corruption
 - IPR

Taxation

- In many cases, emerging markets and developing countries are not getting the taxes they should be getting from multinational corporations, reflecting the economic activity occurring within their jurisdiction
 - “Innovation” in tax evasion/avoidance, facilitated by digital economy
 - Competition among developing countries—race to the bottom
 - Developing countries need to work together to reach agreement against such harmful tax competition
 - BEPS only attacked most egregious problems

Reforming system of multinational corporate taxation

- Fundamental problem is with the transfer system of multinational taxation
 - Not well-suited for a world of high economic integration
 - Need to shift to formulaic approach
- Hopeful notes:
 - Some countries thinking about imposing minimum global tax
 - Motivated by outrage at tax avoidance/evasion
 - Enables developing countries to raise tax rates up to minimum level without adverse economic effects
 - Europe thinking about imposing broad digital tax
- Worrisome note: some developed countries thinking basing corporate tax on “formula” based on sales

Basic global problem in private capital flows

- Much of savings long term
- Much of investment needs are long term
- Standing in between are short-term financial markets
- MDB can play a critical role in putting together projects that address needs of savers and investors, including structuring risks appropriately
 - Part of *philosophy* of new development banks
 - Question about how well it is being implemented
 - Problems posed by rating agencies
 - Will require some change in mindset in other development banks
 - Emerging markets and developing countries can play an important role in bringing about these changes

Further problems in private capital flows

- Bilateral investment agreements impose rules, regulations, property rights, and adjudication processes that should be unacceptable
- Little evidence that they lead to more investment
- Hamper ability of government to regulate environment, safety, health, or even the economy
- Are not about preventing expropriation or discrimination
- **Might make sense for emerging markets and developing countries to work towards a narrow multilateral investment agreement focusing just on expropriation and discrimination**

Public flows

- Ever diminishing likelihood of developed countries living up to aid commitment
- But every year, several hundred billion dollars are put aside (metaphorically, buried in ground) as reserves—money earned but not spent, weakening global aggregate demand
 - Annual offsetting issuance of new reserves for development would lead to stronger, more stable global economy
 - Could be thought of as an expanded SDR system
 - Done in the right amount, would not be inflationary

Climate shocks

- Increasing concern about magnitude of climate shocks being experienced in different parts of world
- IMF can be viewed as a multilateral institution to help countries manage financial shocks
- Big shocks going forward will include climate shocks
- **We need a global institution to help especially developing and emerging countries manage climate shocks**
 - Funds should come from those most responsible for global warming
 - SDR could be an alternative source

Reversing perverse flows

- Corruption has been facilitated by tax paradises and secrecy havens, costing developing countries huge amounts of money
 - Not just a matter of offshore centers, large on-shore centers
 - Real estate favorite vehicle
 - We know what needs to be done
 - Developing countries and emerging markets need to put increased pressure globally
 - This is another example of a problem that can only be attacked through multilateralism
- IPR's have also become a major source of “reverse” flows
 - Need to rethink global intellectual property regime
 - TRIPS was a corporate-driven regime—not one designed to advance progress in science and technology
 - This may be a good moment to rethink the rules
 - Especially important in health
 - Especially important in keeping open opportunities for small and medium sized enterprises in emerging markets and developing countries

Need for stronger multilateralism in a closely integrated global economy

- Greater integration means what one country does has more effects on others
- Greater need for cooperation, collective action
- That is, greater need for multilateralism
- The rule of law is essential for the functioning of any economy
- An international rule of law is essential for the functioning of the global economy
- Multilateralism is under attack—but the very attack has made everyone else aware of how important it is
- Important to go ahead with strong multilateralism agenda even without the US—even going so far as to appoint new WTO judges
 - A multilateral world minus one is better than no multilateralism