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