Overview

This one-day global policy dialogue – organized by Friedrich-Ebert-Stiftung (FES), the Stimson Center and World Leadership Alliance-Club de Madrid (WLA-CdM), held on November 19, 2019, and hosted in the World Bank by Germany’s Executive Director, Jürgen Zattler – provided an informal, Chatham House Rule setting for focused discussion on challenges to and renewed vision for our rules-based multilateral system. Three roundtable sessions, exploring ideas for renewing international cooperation, strengthening the macro-economy for both long-term health and short-term crisis management, and building political will behind an effective and fair trading system were introduced by experts who had taken part in a June 2019 “Global Policy Dialogue on Global Security, Justice, and Economic Institutions,” held at the Stimson Center 1 that concluded with a recommendation for more focused discussion of global economic institutions. Both the November and June Global Policy Dialogues aimed to contribute ideas on the strengthening and further innovation of global economic institutions, in connection with intergovernmental deliberations in preparation of the United Nations’ April 2020 High-level Dialogue on Financing for Development and 75th Anniversary Summit in September 2020 in New York, as well as the annual G-20 Summit and principals’ level meetings of the World Bank, International Monetary Fund, and World Trade Organization.

In addition to the roundtable sessions, there was a two-part keynote session. Part one featured the reflections of World Bank Vice President Mahmoud Mohieldin on revitalizing international cooperation. Part two was a question and answer session with WLA-CdM members, the former Prime Ministers Mehdi Jomaa (Tunisia 2014-15) and

Yves Leterme (Belgium 2009-11), who debated the political costs of reforms and how to overcome them. This was also the subject of an October 2019 IMF Staff Discussion Note co-authored by Davide Furceri, who introduced the subject prior to the Prime Ministers’ debate.

**Overarching concern**

Tensions between the need to reform and preserve the rules-based multilateral system of global governance and frustrations stemming from neglected distributional inequalities must be reconciled. This realization emerged early on in the meeting as an overarching concern.

The difficulty and rarity of attempts at comprehensive global governance – the Peace of Westphalia (1648), Congress of Vienna (1814-15), League of Nations (1920) and United Nations (1945) – were raised by PM Leterme to remind the meeting not to underestimate how difficult it has been to build the multilateral system we have, in need of reform though it may be. In the face of civil unrest in many countries, an issue also raised by PM Jomaa, Bank VP Mohieldin and other participants at different points during the day, authorities need structured dialogue with citizens to enable a better understanding of this system so that populations can see whether and how it benefits them. Only by building such political allies in civil society, and making the multilateral system more inclusive, will we be able to muster the necessary international cooperation to save our rules-based system, Leterme argued. Other participants added that national policies to promote more inclusive growth are also part of the solution.

The question was raised whether we are transitioning to a new stage in the global economy that is characterized by disorder. The point was made that people on the streets, expressing anxiety about globalization, understand when their lives are not improving. Indeed, it was argued, it is not solely a Leftist view that international rule-making benefits big countries and multinational companies, so it is no surprise there is a backlash in many countries. *The Economist* and *Financial Times* see it that way as well. Orthodox economic policies have failed to produce gains distributed equitably. In conclusion: tweaking the rules will not be enough, so how do we accurately gauge the challenge of reforms? How do we transform global economic governance to support sustainable and broad-based development for all nations and peoples?

**A key insight of the meeting emerges**

Early on the observation was made, and supported by many participants, that the institutions of global economic governance are impeded by asymmetries and internal imbalances. They are thus not calibrated to address the global challenges that are nevertheless in their mandates. This key insight emerged first in the opening remarks and was taken further in each subsequent session throughout the day.

For example, it was noted that, although the World Bank has a mission to help countries develop and to combat poverty, it also has a role in addressing global challenges but is impeded from doing so, due to a lack of the necessary (transnational) instruments because the institution is country-focused.

It was argued that the IMF suffers from critical imbalances as well, since it has a mandate for two main functions, surveillance and lending, but with a governance structure that corresponds only to its lending function. This asymmetry was explored by several discussants, who noted that – for the lending function – it is reasonable that the more resources a country contributes to the pool of international resources that the Fund administrates, the more weight it should have in decisions related to the use of those resources. Yet this relationship between contributions and influence within the organization does not serve the institution well in its surveillance function. To be credible,
surveillance has to be independent from power. Otherwise, while the IMF may try to address systemic instability, the credibility of its policy advice may be compromised. In order to persuade countries to change policies or behaviors that imperil the stability of the global financial system, the independence of the IMF’s policy advice must be beyond any reasonable doubt. Indeed, one participant suggested limiting the use of weighted-voting exclusively to decisions related to the use of Fund resources. However, as influence on the IMF’s decisions is directly related to the size of financial contributions, its capacity to be evenhanded and speak truth to power remains compromised.

Participants noted that the UN also suffers asymmetries – for example that it has the responsibility for securing peace but without adequate instruments to do so – but there was also a call by some to better recognize the comparative strengths and appropriate division of labor between the UN’s Economic and Social Council (ECOSOC), whose Board is composed of 54 UN Member States, and which plays a normative role in global development, and the IMF, the World Bank and regional and national development banks, which carry forward development work on the ground.

With regard to coherence among the institutions, several noted the imbalance in the number of country representatives between the ECOSOC Board’s 54 members and the number of principals in the World Bank (25 Executive Directors [EDs]), IMF (24 EDs), G-20 (19 countries plus the EU) – and how this presented practical difficulties with regard to meeting together in effective, decision-making settings. Other participants noted that World Bank and IMF Executive Directors represent constituencies, which indirectly bring all members to the executive decision-making table. Adding to this lack of congruity, consider the coordination of 193 UN Member States with one-country-one-vote in the UN General Assembly for non-binding resolutions on economic and other matters, or the 164 WTO members with one-member-one-vote in a trading system (widely believed to be broken). This puts in stark relief the fact that the types and levels of representation and decision-making in the institutions of global economic governance are not aligned. As several participants remarked, the UN’s one-country-one-vote does not work when it gives China’s almost 1.4 billion people the same voting weight as Tuvalu’s 12,000 people.

Compounding these asymmetries, it was noted that realpolitik also affects the UN, IMF, World Bank, WTO, G-20 and other membership-based international institutions and groups. Demands directed at management of multilateral organizations to enact reforms have limited impact because of the often-conflicting interests of the national governments that comprise their member states. Even within national governments, many participants noted a lack of coherence from one ministry to another, resulting in divergent policy positions taken in different institutions. One participant called the level of asymmetry between Geneva (WTO) and Washington (IMF) “schizophrenic”. He noted that at the WTO, developed countries argue that big emerging market economies are ready to compete on an equal footing, hence they must adopt more responsibilities. Big emerging markets resist, arguing that they still need “special and differential treatment” (a derogation from general rules). While this takes place at the WTO, in the IMF and the World Bank exactly the opposite happens. Large emerging market economies struggle to increase their quotas; whereas developed countries (mostly European), oppose letting them undertake increased responsibilities. This plays into the hands of politicians who seek to evade responsibility for poor domestic policy choices by blaming the international rules.

Several participants said that keeping the G-20 relevant is key to multilateral reform and that it should be the role of a G-20 continuously bolstered by engagement with other countries and groups, such as labor, to look at coherence among the institutions and policies. One participant noted that it is appropriate for the G-20 to take on this function because its finance ministers now have more inclusive and progressive agendas than previously, since their portfolios are supposed to support an enabling environment for the 2030 Agenda, with social supports, climate sensitivity, up-skilling of workers, and inclusion by gender, SMEs and under-represented groups. Concern was also raised for having the G-20 engage more regularly and constructively the 174 UN Member States not represented in the G-20.
Proposals for dealing with these asymmetries and their negative impact on development included the following:

- Support the G-20 becoming a G-20+, and/or consider “constituency” representation, which could bring the G-20 closer to the wider UN membership and help guide implementing bodies such as the WB, IMF, WTO, and UN agencies to provide a more responsive crisis-management structure and better international economic cooperation.
- Bolster an existing proposal at the World Bank to allow the use of Bank income to subsidize activities related to global challenges.
- Start a serious discussion at the UN of the need for the multilateral system as a whole to move toward more proportional representation, starting with a consideration to downsize the ECOSOC to better mirror corresponding institutions and to convene periodic consultations between the G-20 and the membership of the United Nations.
- Take up former IMF Managing Director Camdessus’s idea to establish norms for 6-7 variables that impact the stability of the global economy so that countries, ideally larger as well as smaller countries, could be incentivized to comply with rewards for staying within norms.
- In order to create a bulwark against the undermining of the rules-based order, and to buttress the legitimacy and support for rules-based international cooperation, countries must feel that the system is fair in distributing rights and responsibilities. We must find compelling arguments to build support for reforms that would preserve international cooperation by making the system fairer and more inclusive. This will require acknowledging that large emerging countries are ready to undertake more responsibilities in the WTO and also in the IMF and the World Bank.

Toward a renewal of international cooperation

This session intro posed the overarching concern cited earlier that we may be transitioning to a new stage of disorder in the global economy, with people on the streets protesting various impacts of rising inequality, aware that the distributional impacts of international rules must be made fair and not only to favor the big countries and multinational companies. Reflecting on these ideas during the keynote session, Bank VP Mohieldin characterized the disorder in the global economy as a movement toward multiple poles of growth, as middle classes grow in developing countries and new patterns of integration are combining regional intensification with global openness. In this context, he argued, the exponential growth in technology that many are calling the Fourth Industrial Revolution leaves us with the question: what sort of cooperation will the globe, the regions and countries need in order to respond to intensifying technological disruption?

G-20:
On the role of the G-20, participants noted a constant tension between the group’s effectiveness and representativeness that might – in a positive view – keep it more attentive to the needs not only of its members but also to smaller countries and global challenges. Most felt that the G-20 was key to the renewal of the multilateral system. Some participants felt that G-20 engagement with (and policy guidance for) international organizations – like OECD, IMF, UNEP and others often outnumbering G-20 members – was both frequent and broad enough to provide the necessary framework for them to work together effectively, although one participant cautioned that the UN’s perspective could only come from the inclusion of Member State representatives to G-20 meetings, not the UN Secretariat. Some participants discussed possible benefits of a more formal merger of the G-20 with the IMF IMF’s International Monetary and Finance Committee and the Bank’s Development Committee that comprise
similar membership and numbers, with consideration of the G-20’s role in ensuring coherence among the institutions.

Several participants noted that G-20 countries could place more emphasis on what they themselves can do, for example to regulate transnational corporations in their own countries, rather than over-emphasizing what developing countries must do, for example to deregulate in order to foster their SMEs. One participant noted that the majority of the G-20’s agenda focuses on implementation at the local and national level, making its structure compatible with the pursuit of national interest within a multilateral context.

**International Monetary Fund:**
Forty per cent of global FDI positions are shifted to tax havens every year; corporations are under taxed; and we need a commitment to address the issue of illicit financial flows: IMF participants indicated that role of the IMF in international cooperation is particularly important for tax cooperation, which is an area dominated by OECD, but in which IMF provides important perspectives, such as on policy implications for low-income countries.

**World Bank:**
The Bank, as was noted in the opening remarks, is impeded by the internal imbalance of a country-focused institutional orientation tasked with contributing to the resolution of global challenges, for which the Bank lacks necessary instruments. As noted above, under proposals to deal with asymmetries, note that there is currently a proposal to allow the use of Bank income to subsidize activities related to global challenges.

**United Nations:**
The UN leads the Inter-agency Task Force (IATF), which was tasked in the Addis Ababa Action Agenda of 2015 with follow-up on the entire Financing for Development set of issues, including domestic public resources, domestic and international private business and finance, international development cooperation, international trade as an engine for development, debt and debt sustainability, systemic issues, and finally, science, technology, innovation and capacity building. Since 2015, the IATF has compiled data – for the first time – on all finance-related flows from over 50 UN agencies, funds and programs, as well as other sources, such as the OECD, Financial Stability Board (FSB) and South Centre. This enables it to produce a yearly Financing Sustainable Development Report. It was noted by more than one participant that UN cooperation with the IMF was particularly close in the production of this report and better than with the Bank, due to changes in Bank management.

**World Trade Organization:**
The WTO is like the keystone of the multilateral system: it was the last full-fledged organization of the multilateral system to be put in place. It is currently challenged by trade tensions and by its own weaknesses. Since it is institutionally the weakest link in the international order, if it crumbles, the integrity of the whole system will be endangered. In order to preserve its capacity to effectively settle disputes and promote rules-based cooperation on trade issues, the WTO needs strengthening overall, not only in its Appellate Body.

**Citizens:**
Speakers noted the social conflict arising around the world related to globalization and increased inequality. Strengthening the multilateral economic governance system depends on more than just technical (one speaker said ‘cosmetic’) reforms towards realigning the perceptions of who the institutions are serving in favor of the many and not just the few. Increasingly active groups within Member States are demanding seats at the policy table. The legitimacy of the system needs to be re-validated in terms of the differential impacts of economic policies on diverse constituent member states and the social impacts within those states.
Proposals for renewing international cooperation offered by various participants:

- Support a G-20+ (as discussed in the previous section on asymmetries in the multilateral system) with a lean but permanent secretariat that liaises daily with counterparts at the UN, WB, IMF, and WTO;
- Tripartite meetings (e.g., L-20) based on social dialogue, bringing labor ministers, employers and trade unions together, have made positive contributions to G-20, but when these run counter to finance ministry ideas, they have not been taken on board: this needs to be resolved within the G-20 structure with the involvement of ILO;
- Enlist the IMF to help change the rules of international taxation to fund development and the 2030 Agenda;
- Muster the political will in the IMF and other bodies to create an orderly and fair regime for debt restructuring in economies both small and large, because this is critical to a healthy macro-economy;
- (As proposed before) bolster the existing proposal at the World Bank to allow the use of Bank income to subsidize activities related to global challenges;
- The Bank should prioritize investments in human capital, resilience and infrastructure (especially in “DNA”, e.g. data, networks and AI) and facilitate their connection to global value chains;
- Urgently rethink our global trade governance as we negotiate the future of e-commerce so that current problems with WTO rules do not perpetuate existing problems.
- Invite the national governments with large emerging markets to assume responsibilities commensurate with their increased economic weight.

Toward better management of the macro economy (both long-term and crisis management)

As discussed in regard to asymmetries that impede the necessary functions of the IMF, the institution needs better overall governance to take care of global financial stability, because with the present structure it does not have the tools to promote policy coherence in economic policy making. Since the 2008 crisis, the Financial Stability Board has increasingly filled an important gap in IMF expertise, particularly in the areas of securities and capital markets. One participant acknowledged that IMF is now recognized as an important player “on both sides of the equator”.

How to reinforce the role of IMF lending for crisis management, while ensuring the independence and candor of its surveillance function was a central concern of this session. One participant argued that since the best crisis management is crisis prevention, we need to ensure that there is a balance – in surveillance – between candor and transparency, because crisis resolution is now more complex than just going to the IMF. In today’s world a country may also have to marshal the private sector and approach China, both of which will certainly be candid. Several asked whether IMF has enough resources to deal with liquidity crises. Participants grappled with the facts presented: that the IMF’s lending capacity is close to one trillion US dollars, but about half of its war chest is borrowed and depends on the renewal of the lending by large members. Moreover, a trillion dollars now represents only about 0.4% of total global capital flows, with slowing global growth forecast.

For developing countries, several participants acknowledged, the IMF will be the main source of support in a financial crisis, not regional banks. Because of that, they argued, it requires an increase of financial resources through increasing quotas and a new issuance of Special Drawing Rights (SDRs). It was also noted the convenience of counting on an "insurance-like" instrument that would allow countries with macro-economic vulnerabilities to be less dependent on accumulating reserves. Regarding other challenges, such as the prospect of long-term low or even negative interest rates, participants agreed this is problematic and seemingly leaves no room for monetary policy to respond. Emerging challenges include cyber-technology and artificial intelligence, with fin-tech developing outside the regulatory structure. In addition, the tense international environment makes it unlikely we
will pull together internationally in the case of another crisis. Bailing out banks in 2008 was necessary but went far beyond what was needed, since monetary easing has arguably now worsened societal polarization and income inequality. Some participants argued that without governance reform – noting that the last update to IMF shares was 2010 – it is inevitable that rising powers like China and India will be incentivized to create rival institutions and possibly to abandon the present multilateral system.

The conceptual framework to deal with sustainable growth (climate change, inequality, gender) needs to take hold in the organization and not only in the Managing Director’s speeches. Recommending fiscal policies to combat inequalities has been under-utilized by the IMF, which usually recommends consolidation. Although research has shown that we must not always make trade-offs between growth and equity, and although surveys of IMF Mission Chiefs show that social spending is “macrocritical” in their countries and therefore within the IMF’s mandate, the depth of coverage of these issues still varies from country to country. Attention to the social impacts of economic policies championed by international financial institutions (IFIs) is imperative as polarization can lead to questioning the legitimacy of the system.

**Proposals for better management of the macro economy offered by various participants:**

- In a liquidity crisis the **IMF** should be able to tap capital markets like the **World Bank** does;
- The **IMF** should be able to issue bonds in SDRs, and in general there should be a more streamlined way to use SDRs in an emergency;
- We do not focus enough on the critical issue of addressing inequality: increased income inequality has links to political instability, and unless we address the problem it has the potential to undermine the political order. The **IMF** must therefore prioritize the integration of research into redistributive policies, which should be an integral part of the Fund’s recommendations and advice at the national level.

**Toward an effective and fair global trading system**

Driving forces behind the current trading system include geopolitical competition between countries, which has brought on unilateralism and fragmentation due to new bilateral and plurilateral trade agreements, lack of compliance with even the most basic WTO agreements (liberalization of goods, trade and services, and intellectual property, as well as the dispute settlement mechanism), and the need for technical assistance, consensus building, knowledge production and yearly meetings.

Four possible scenarios at the global level were summarized in the introduction to the session as: 1) open international rules, 2) competing coalitions, 3) technological disruption, and 4) sovereignty first. Participants agreed that the current multilateral rules aren’t good enough. That is why countries are moving to bilateral and even unilateral actions. Even worse, since the global policy dialog in November, the WTO’s Appellate Body has become defunct (Dec 11), so now the rules-based trading system will for the first time try to function without it.

Participants agreed that the “elephant in the room” was China, and indeed the dialogue was criticized for not having more participation from Asian emerging market countries. One participant characterized China as a non-market economy that was supposed to transform into a market economy. Some participants discussed the problematic relationship between China’s fast growth and the volume of its state subsidies to industry that the WTO has not been able to grapple with in a fair way.

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2 “Macrocritical” is a term used to describe a topic that falls within the IMF’s allowed scope for policy advice and interventions. In other words, macrocriticality indicates a concern or topic the IMF should study and consider.
Solving the WTO’s problems will require political will and decisions about political engagement, which has been missing from the WTO. Many participants said the G-20 will be an important forum for building political will. Several suggested that middle powers who care about the system may be better partners than the US or China to strengthen the system, fill gaps, and find reform opportunities for the dispute settlement process (which US agreed to in Uruguay Round but now disowns, a problem pre-dating Trump). Another major source of concern is the blockage of nominating new Appellate Body Members at the WTO: several participants discussed the necessity to improve decision-making in key aspects of the WTO dispute settlement process.

**Proposals for the trading system offered by various participants:**

- Prioritize dialogue with China. China must be persuaded that reforming WTO is not about “reforming” China. Using firms (private or public) as instruments to achieve economic and social objectives is not necessarily inconsistent with the multilateral trading system. However, in China and some other countries it is difficult to distinguish public objectives from private interest. This undermines confidence amongst trading partners. At the same time, WTO reform should not be an opportunity to force countries to adopt the Western model of corporate governance, but rather should allow all trading partners to clearly distinguish the relative role of the state and the market in their economies.
- Find the political will necessary to appoint decision-makers committed to solving the WTO’s problems. This will mean committing to a calendar in sync with global challenges, because currently finance ministers meet only once per year, and the steering committee meets only twice per year.

**Keynote**

The keynote session was structured as a way for participants step back from the recommendations for reform coming out of the other sessions and reflect on the political costs of enacting reforms at the national and regional levels. Davide Furceri, co-author of the October 2019 IMF Staff Discussion Note, “The Political Costs of Reforms: Fear or Reality?” introduced the session with main takeaways from the paper, written because there has been a significant slowdown in the reform process in many countries, and IMF wanted to understand why. PM’s Jomaa and Leterme offered perspectives from their experiences enacting reforms, as heads of state, respectively, in Tunisia (2014-15) and Belgium (2009-11) which was also held the EU Presidency during Leterme’s term as PM.

Furceri’s main points:

- Reforms have significant electoral costs only when implemented in the run-up to elections;
- Reforms undertaken early in an incumbent’s term don’t affect election prospects;
- Reforms during periods of weak economic activity have definite political costs that must be factored in;
- Reforms during periods of good economic activity have benign electoral consequences;
- Financial deregulation and external capital account liberalization are electorally costly, period.
- In countries with difficult economic conditions governments can nevertheless succeed in implementing reforms when they coincide with a democratic transition and there is strong ownership of the reform and consensus in the society that reform is necessary.

PM Jomaa noted that he became Prime Minister of Tunisia in the midst of a political crisis, when the priorities were combatting terrorism, finding political stability and making the transition to elections – not discussing reforms. The political classes feared the impact of needed reforms on their electability, but the dialogue was ultimately turned on its head by raising the issue of the cost of failing to enact reforms. At the same time, he and his political collaborators were aware that to succeed in the democratic transition, ordinary people had to see a dividend.
It was critical to quickly introduce the subject of the need for reforms and to mobilize and communicate with people, to start a National Economic Dialogue of diverse stakeholders including trade unions, the private sector, experts and influencers. They listened to the positions and possible reactions of each to the reforms they hoped to enact; they chose five key reforms to push for but put 20 on the negotiating table. The greatest difficulty came in talking to the unions about subsidy reform, so they had to carefully prepare their arguments and be transparent about the steps to implement the reforms. Unfortunately, fear of the political costs of reforms since then have resulted in a worsening of the economy: in 2015 debt was 15 per cent of GDP; now it is 75 per cent.

PM Leterme reminded participants that historically speaking we have three kinds of frameworks to organize inclusion and economic development: 1) the Anglo-Saxon model based on free trade, low regulation and taxes, and downsized government as advocated in the UK, US and other Anglophone countries, 2) the Nordic model, with a free market and strong property rights combined with collective risk sharing via social programs and labor market institutions, and 3) the social market economy based on social dialogue in a tripartite model as practiced for decades, for example, in Germany, France, and Belgium, but which is challenged as a model now that trade unions are losing numbers and social movements are overshadowing them.

Regardless of the framework, he indicated he believes strongly that, to be successful in reforming the economy, three elements are essential: to contextualize, to invest sufficiently in dialogue even if it is time-consuming, and to embrace inclusive approaches. PM Leterme noted that in his experience in Belgium during the aftermath of the financial crisis, the IMF and EU were so fixated on bringing labor costs down that they failed to take the context into account when they pushed back against the automatic indexation of wages and to curtail payments to the unemployed. They failed to consider that impact of the crisis on individuals and families necessitated an inclusive approach. In this case, he resisted the advice of the EU, OECD and IMF, not because their arguments were not economically logical, but because they were neither just nor politically feasible in the Belgian national context where social protections for identity groups are valued highly.

He cautioned that globally we face a widespread crisis of representation. New technologies used in decision-making and democratic debate have not been inclusive and so have not promoted democratic reform. Taking up this theme, one participant noted the urgency of the matter: while we argue facts, the other camp argues sentiments.

In conclusion

The day’s dialogue revealed a common, overarching concern among participants about the urgency of strengthening the multilateral system, while simultaneously addressing political discontent with the lack of inclusion the system has produced to date. A key insight that emerged is that each of the institutions of global economic governance is, in critical ways, impeded by asymmetries and internal imbalances that make it difficult to address the global challenges in their respective mandates, and that similar challenges are faced by informal forums such as the G20. The IFIs have made great strides in documenting and responding to the social inclusion challenges which impact their Member States. Yet this requires further development of tailored policies which consider the impact of policy recommendations on social development as well as economic coherence. Recognizing the importance of balancing these asymmetries both within institutions and between them, the co-organizers pledge to encourage each of the institutions to consider further debate on pertinent recommendations coming out of the meeting and to take up the insights and recommendations with further stakeholders, in particular with countries not represented in the meeting. The organizers of the one-day Global Policy Dialogue will also feed insights and recommendations shared with the forthcoming intergovernmental deliberations in preparation of the United Nations’ 75th Anniversary Summit in September 2020 in New York.