Inclusive Multilateralism

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Outline:
1. Fragmented Global Governance
2. Pervasive Fragmentation
3. Renewed global imbalances
4. Taking back multilateralism
1) Fragmented Global Governance

From the order before the crisis...

- G8
- IMF, World Bank, WTO
- UN
- MDBs
- OECD
- Basel Committee and BIS
1) Fragmented Global Governance

...to the complexity after the crisis

New Multilateral Development Banks:
- BRICS: New Development Bank
- China: Asia Infrastructure Investment Bank

New Bilateral Lenders (China)

Strengthened Regional Financing Arrangements:
- Euro Area: European Stability Mechanism
- South East Asia: Chiang Mai Initiative
- South America: Latin American Reserve Fund
- Russia and Eurasia: Eurasian Fund for Stabilization and Development
2) Pervasive fragmentation

Fragmentation in the EA: down in prices, not yet in quantities...

Financial Fragmentation in the Euro Area

Source: ECB, only Monetary and Financial Institutions
Eurostat, 10y Government Bond Yields

Lehman Brothers Bankruptcy
"Whatever it takes"

Cross Border Loans and Deposits, Euro Area, Millions of € (LHS)
Government Bonds Yields, Standard Deviation, Euro Area (RHS)
2) Pervasive fragmentation

...the elephant turned into a whale...

The "Whale Graph" of global inequality
Cumulative total income growth by percentile across all world regions, 1980–2016

- Top 1% captured 27% of total growth
- Bottom 50% captured 12% of total growth
- Rise of Emerging Countries
- Squeezed median and low income in the US and Western Europe
- Prosperity of the top 1%

Source: WID.world
3) Renewed Global Imbalances

External imbalances: emerging and advanced economies swap places...

![Diagram showing current accounts as share of global GDP](source: IMF WEO Database)

- US
- Rest of EU
- Emerging economies
- China
- Euro Area
- OPEC
- Other Advanced

2007 vs 2017
3) Renewed Global Imbalances

Global imbalances fuelled by unbalanced policy mix

E: desirable equilibrium

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CA > 0
OG > 0

CA > 0
OG < 0

CA < 0
OG > 0

CA < 0
OG < 0

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With balanced policy mix

With unbalanced policy mix
4) Taking back multilateralism

The optimal global governance structure:

- G20/G7
- WTO
- IMF + RFAs cooperation
- World Bank + MDBs working as a system
- Basel Committee and BIS
- OECD
- UN
- FSB

Tackle common challenges, provide global public goods and regain citizens' trust.
4) Taking back multilateralism

Keep the global economy open...

World Trade as % of Global GDP
Comparing Great Depression and Great Recession

Source: Klasing & Milionis (2014), WTO, IMF WEO

2008=100  1929=100
4) Taking back multilateralism

Towards a more consistent global policy mix.

US
- From inward looking strategy and pro-cyclical policy mix
- To continued contribution to multilateralism and more prudent macroeconomic stance

Euro Area
- From excessive reliance on external surpluses
- To stronger investment, structural reforms and deepening of EMU

China
- From unbalanced growth model and market-distortive practices
- To more sustainable development model and greater adherence to global level-playing field