The New Global Economic Governance

Global economic governance G7 and G20 in the era of Trump

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Global economic governance: where we come from

- Post-WWII: global economic governance structured around the Bretton Woods system (IMF, World Bank)
- International monetary order was essentially unipolar: central role of US dollar. First oil price shock brought down the system
- The end of Bretton Woods led to the painful emergence of a multipolar system
- But the Triffin dilemma is still with us
- Rise of emerging and developing economies, facilitated by the success in trade liberalisation

Impact of the financial crisis on global governance: economic impact

The financial crisis demonstrated global interdependence and importance of effective global governance:

- **Spillovers via financial markets can have dramatic consequences**
  - Case of Greece has shown reality of 'butterfly effect'
- **Financial and monetary stability have a global dimension**
  - The exchange rate does not insulate national countries in a world of free capital movements (H. Rey: from 'trilemma' to 'dilemma')
- **In a post-crisis world, close cooperation between policy makers is essential to avoid 'beggar-thy-neighbour' policies**
  - This is particularly true in the case of non-conventional monetary policy

Impact of the financial crisis on global governance: institutional changes

- Starting in 2008-2009: Shifts in international institutional landscape to address crisis
- Impact of crisis on advanced economies -> greater confidence of emerging powers; demand for faster reform of global institutions
- G20 elevated to Leaders level: key global forum
- G20 2009 Pittsburgh summit designated G20 as "premier forum for international economic and financial cooperation"
- G20 has helped to reduce the mistrust between advanced economies and emerging markets

G20: key decisions

Decision	G20 Summit	Assessment
Commitment to ensure "that all financial markets, products and participants are regulated"	Washington 2008	+ + +
Implementation of concerted fiscal stimulus	London 2009	+ +
Commitment to refrain from protectionism	London 2009	+ + +
Decision to triple IMF resources	London 2009	+ + +
Decision to withdraw fiscal stimulus	Toronto 2010	- -
Common approach to global imbalances	Cannes 2011	+
Agreement on international tax transparency	St Petersburg 2013	+ +
G20 Growth Strategies	Brisbane 2013	+
Three-pronged policy strategy	Hangzhou 2016	+ +

… and Hamburg?

G20: key challenges

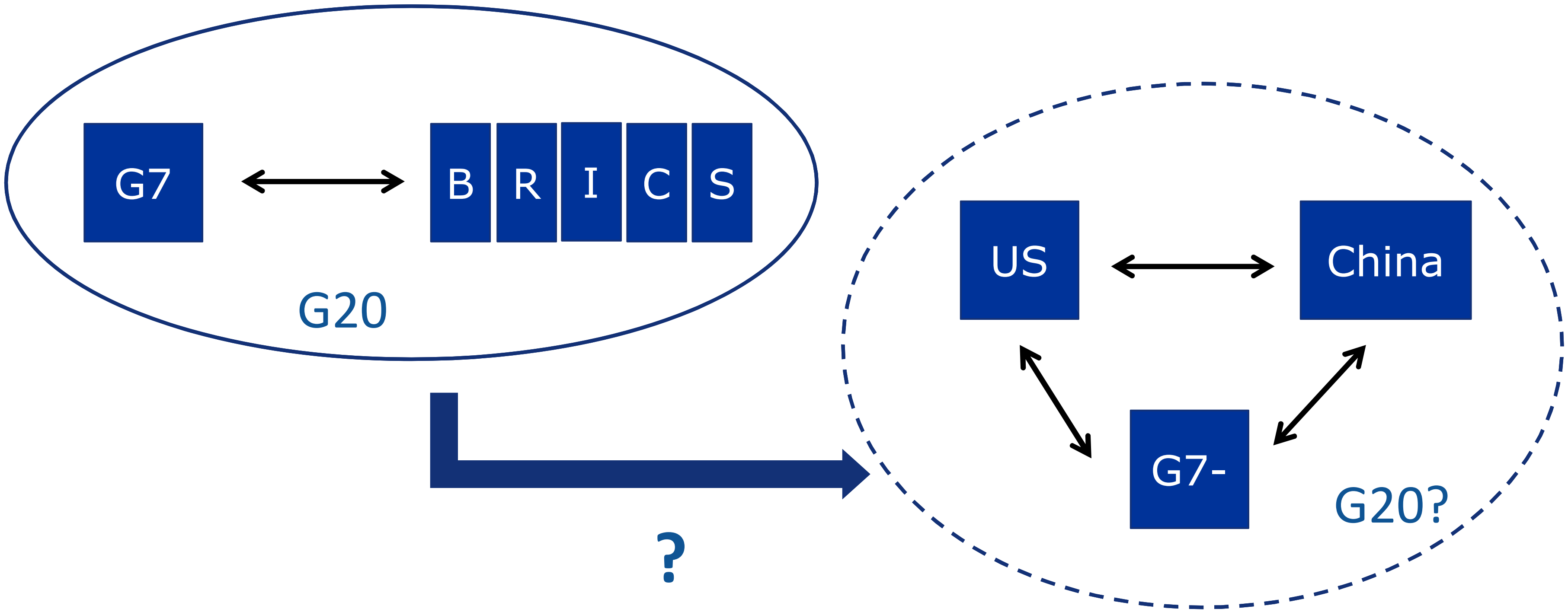
- Moving from short-term crisis response to cooperation on long-term challenges for the global economy: "winning the peace"
- Delivering on implementation of existing commitments (e.g. on tax transparency, financial regulation)
- Finding points of common interest among diverse G20 membership to drive cooperation on new topics (e.g. on anti-terrorism financing, digitalisation, cyber crime)
- Increased awareness of the threat of populism and inclusiveness
- Challenges towards multilateralism

A new development: G7, not quite like-minded

- G7 as internal caucus on key G20 matters: trade, financial regulation, climate change
- G7 as locus to overcome differences: macroeconomic policy, tax cooperation
- But consensus has broken down:
  - Bilateralism threatens multilateral, rules-based system
  - Traditional "exogenous" assumptions are questioned
  - Mistrust risks setting in

A new development: G7, not quite like-minded

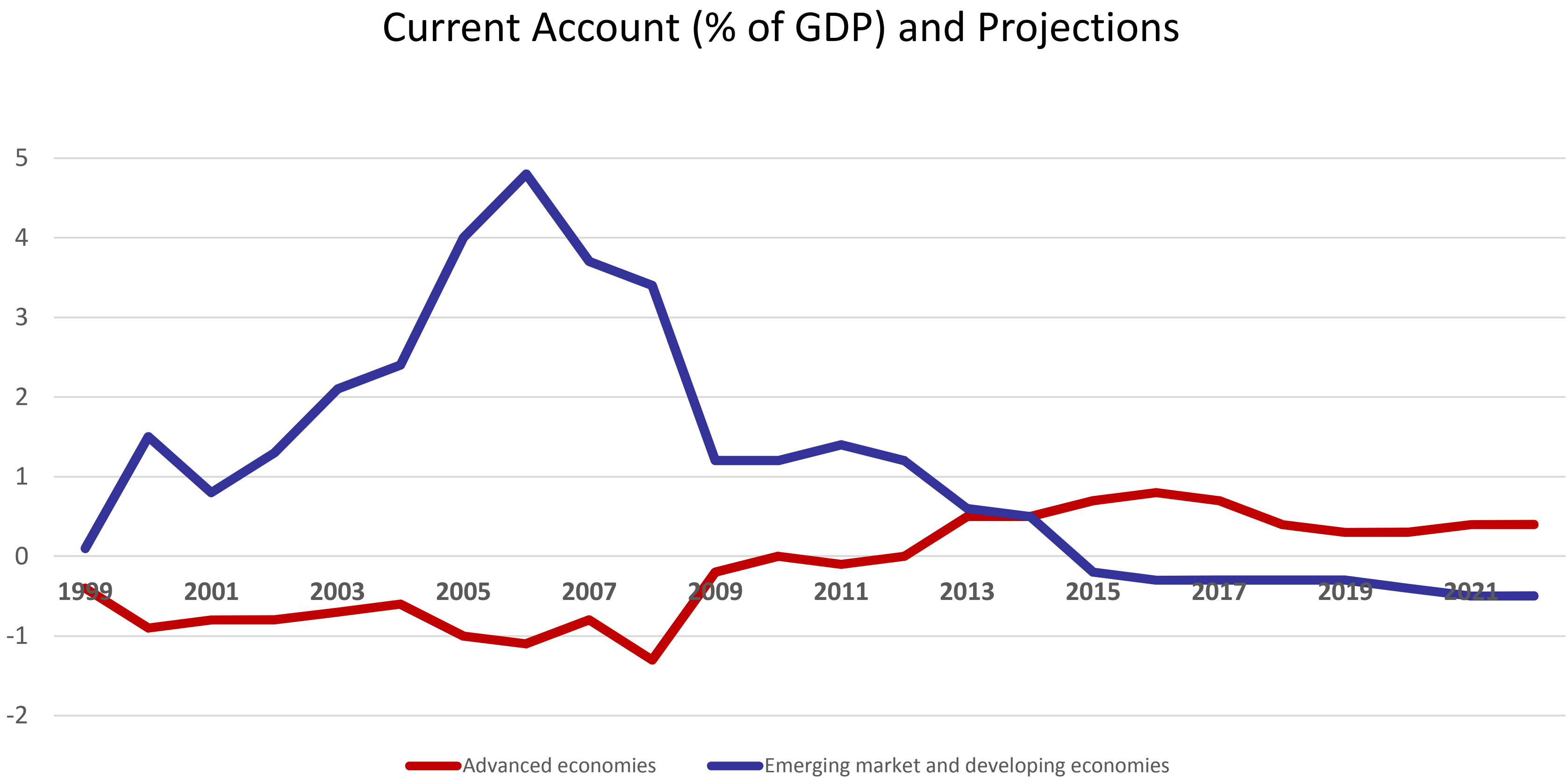
A new dynamic game?



Challenges to multilateralism

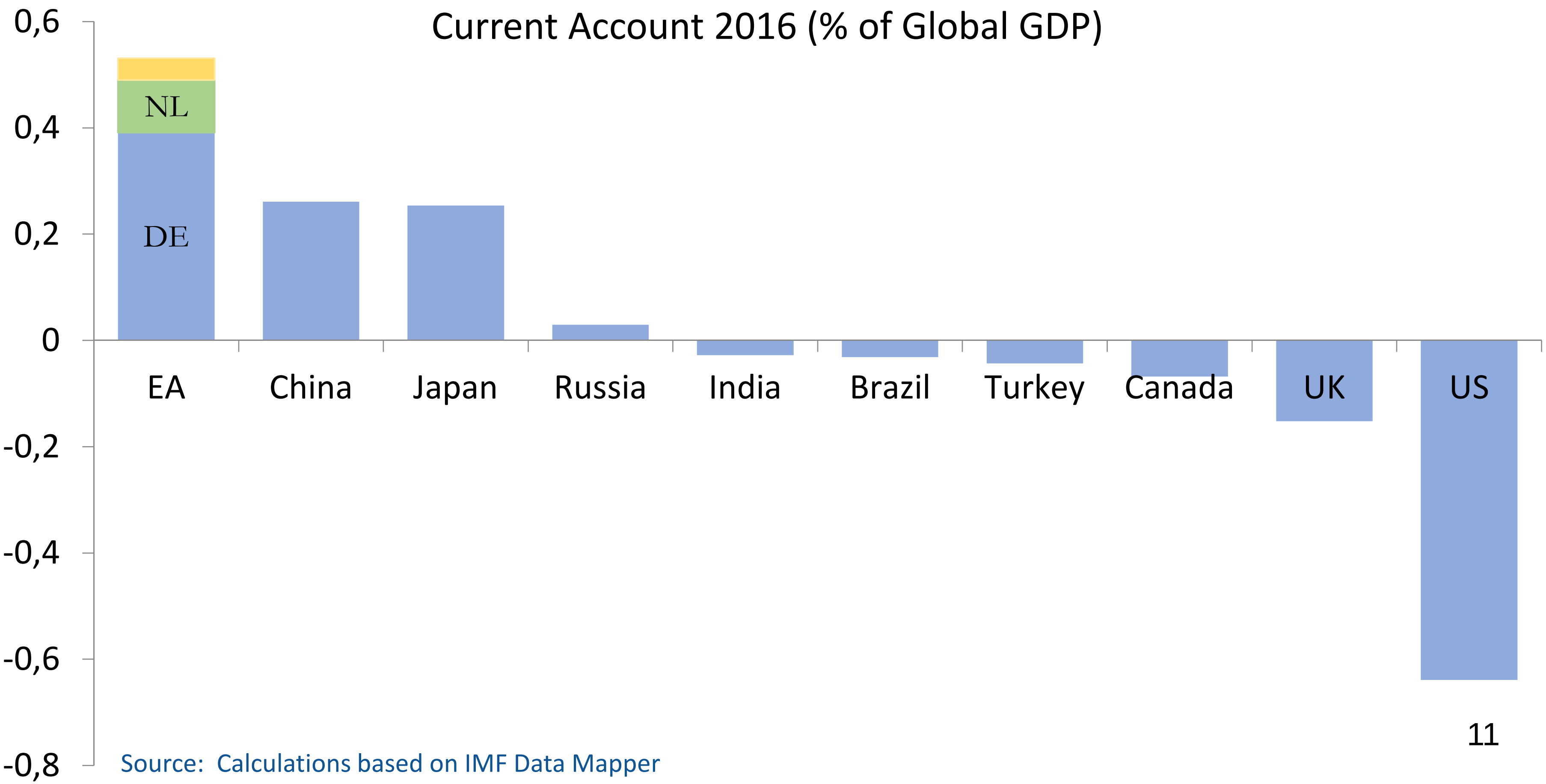
- Trade → "nuanced" `shift to bilateralism
- International Monetary System (Crisis Management, IMF) → US disengagement
- Tax → risk of competitive tax shifts
- Financial Regulation → risk of rolling back
- Migration → lacking cooperative solutions
- Climate change → US reneging

Challenges to multilateralism: Renewed global imbalances as trigger



Source: IMF Data Mapper

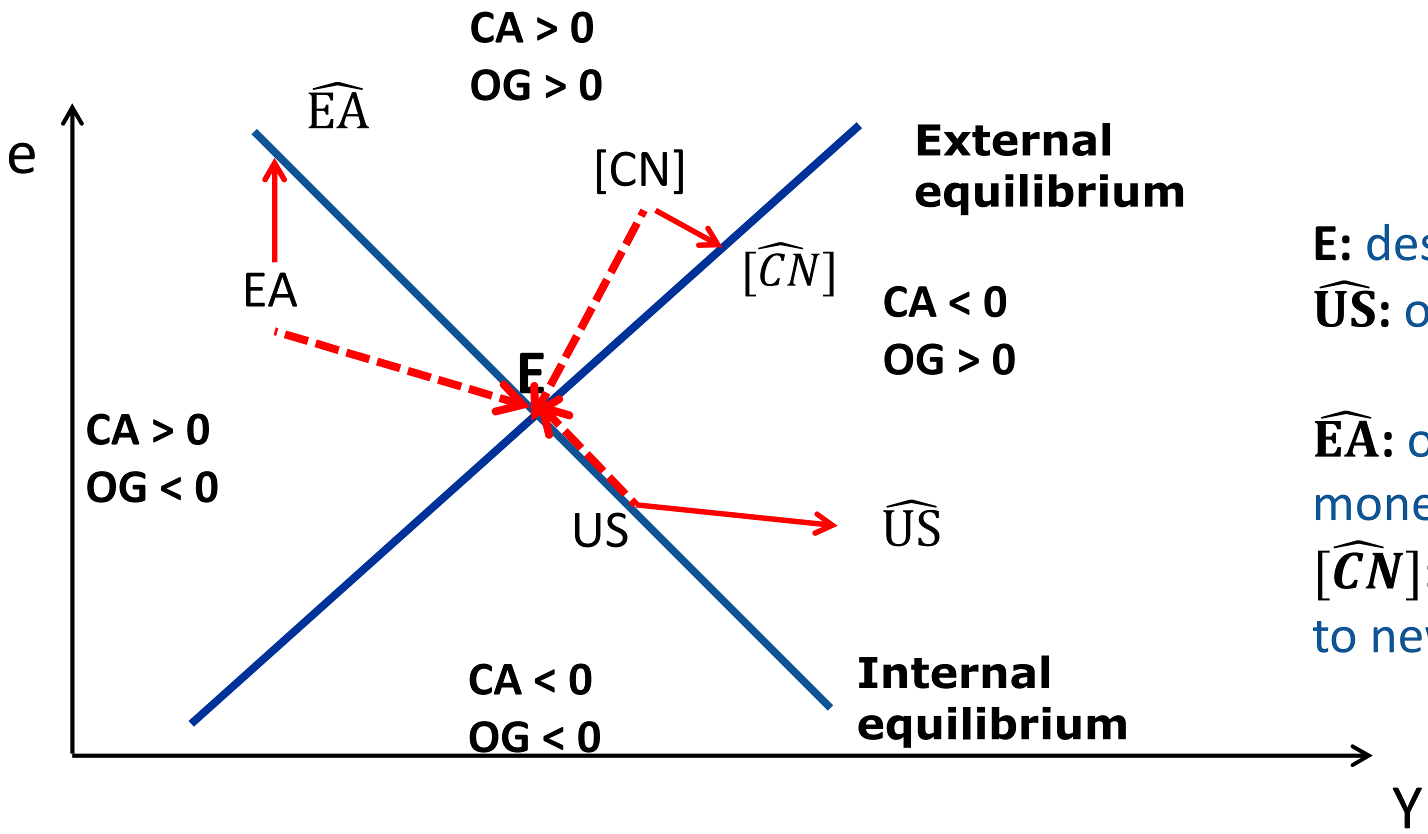
Challenges to multilateralism: Renewed global imbalances as trigger (continued)



Source: Calculations based on IMF Data Mapper

Challenges to multilateralism

Global imbalance fuelled by unbalanced policy mixes



E: desirable equilibrium

$\widehat{\mathbf{US}}$**:** over-expansionary fiscal policy

$\widehat{\mathbf{EA}}$**:** over-reliance on monetary policy

$[\widehat{\boldsymbol{CN}}]$**:** difficult transition to new growth model

Preconditions for EU to count: overcoming weaknesses

- Projecting strength externally requires internal strength: need for internal EU cohesion
- Shed the "small country syndrome"
- EU/euro area at risk of "reverse creditor paradox"
- Risk for the EU to attract criticism from both the US (not assuming our responsibility to boost global growth) and emerging markets (not acknowledging the shifts of power in global economy)

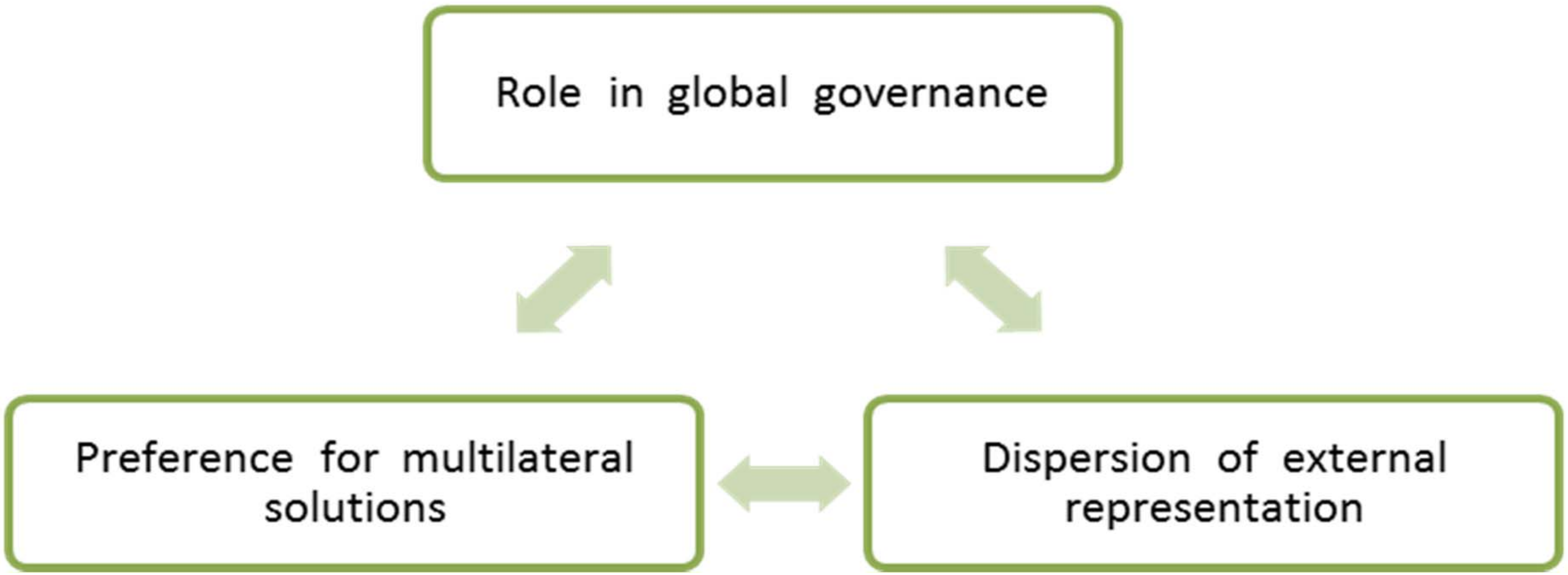
Preconditions for EU to count: leveraging strengths

Leverage our strengths: attractive aspects of European model enhance the diplomatic 'soft power' of the EU:

- European social model/inclusiveness: EU social systems combine equity with growth -> more attractive for many EMDCs
- European environmental model: EU leads on global environmental issues and fight against climate change
- Support for multilateralism: EU committed to effective multilateralism, working with international partners on win-win solutions
- The EU as a beacon of stability and model for international cooperation

Preconditions for EU to count: drawing the institutional implications

Overcoming the inconsistent trinity



Conclusion: Towards the G20 Hamburg Summit

- Global economy: exploit better times
- Trade: support for multilateral system/anti-protectionism pledge
- Climate change: react to dis-engagement by the US
- Keeping up momentum on tax transparency and financial regulatory reform
- Open new *chantiers*

<u>But most important of all,</u>
<u>clarity on G20 political relevance</u>

THANK YOU