Talking Points.

SLIDE 1

Globalization has increased economic output and boosted technological innovations, but it has also deepened distributional tensions and failed to accommodate social preferences and stem environmental degradation.

A sense of inequality, of being left behind grew in many countries. A sentiment that was compounded by the GFC as tax-payers money had to be used to bail out banks and bankers.

These drawbacks were compounded by COVID. Many governments scrambled to repress exports of vaccines and sanitary equipment.

"Protect family first" was an understandable initial reaction, but it called into question the reliability of economic interdependence.

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Long value chains became a source of vulnerability. Economic considerations were replaced by the "just in case logic". In shoring, near shoring and friend shoring value chains are proposed as means to build up resilience.

SLIDE 3

Russia's invasion, the sanctions that followed, the "weaponization" of clearing payment systems, and China's "no-limits partnership" with Russia, pushed national security concerns to the top of the political agenda.

Economic nationalism is rising, trust in multilateral institutions fading. We are moving from "geoeconomics" to geopolitics.

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The United States is promoting a "China-less" Indo-Pacific Economic Framework, while China is sponsoring an "America-less" Global Security Initiative.

Each camp advancing preferential trade and investment areas and

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underpinning them with monetary swap agreements.

Two or more competing institutional frameworks may emerge, each with its own incompatible, if not hostile, set of rules.

This undermines the two multilateral institutions responsible for promoting trade liberalization and for preserving the multilateral payment system that makes trade possible. To buttress trust in them, they will need an update.

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Admittedly the WTO has been running short of trust for quite a long time. It is loaded with problems and needs more profound repairs than the IMF.

This should not surprise anybody. The WTO has no independent watchdog. No Independent Evaluation Office, hence it has been much easier to sweep problems under the rug in Geneva than in Washington.

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Its dispute settlement function is impaired since 2017 when President Trump decided to block the selection of new members of its Appellate Body. Therefore, countries dissatisfied with the recommendation put for by a "panel" can now simply appeal into the void. It takes decisions by consensus which is interpreted as unanimity and frequently abused to gain leverage in negotiations. Its rules on subsidies were designed for a different world. A world in which trade was mostly carried out by private businesses, and governments had very limited influence in corporate decisions.

In sum, the WTO has many problems, but in this chat, I will limit myself to speaking about an update that matches a symmetrical update that the IMF badly needs. Two updates that would not require a new "Bretton Woods" moment and that could be incrementally implemented, at a pace that could be calibrated so that the competing camps could "harvest" equivalent benefits.

The WTO has 164 members. About two-thirds of them claim to be "developing" and therefore entitled to "special and differential" (S&D) treatment.

This special treatment is meant to provide longer periods to introduce less ambitious tariff reductions. Imposing "lighter" obligations on countries with fewer fiscal resources makes a lot of sense. Opening markets can send uncompetitive industries out of businesses. Faster than the economy's capacity to reabsorb the displaced labour and capital.

Countries with "fiscal space" can cushion the transit. Traditionally developing countries had fewer fiscal resources than their developed trading partners, hence imposing on them less ambitious tariff reductions allowed their governments to round up support for trade liberalization.

Yet, this was the situation in the 60s and the 70s. Nowadays many large EMEs have fiscal space; frequently more than some cash-strained "rich countries". Moreover, large EMEs have developed competitive export industries. However, the WTO has no objective criteria to assert when a country needs S&D. Therefore, nobody gives up the S&D "crutch."

Developed countries have been trying to persuade large EMEs to undertake full trade responsibilities. But they have failed.

Not surprisingly, trust in the WTO's capacity to host successful negotiations has faltered and S&D has been watered down.

Consequently, trade negotiations have moved elsewhere, and truly disadvantaged countries get very little out of S&D "benefits". **Everybody loses.**

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At the IMF the narrative is symmetrically opposite. The same large EMEs that at the WTO argue that they need deferential treatment because they are not ready to compete on an equal footing with their developed partners, this same group of countries at the IMF struggle to increase their quotas, hence to undertake more responsibilities in conducting the Fund. "Our weight in the world economy has outgrown our quotas. We are ready for more responsibilities."

Who is preventing this from happening?

In the IMF it is advanced economies the same "developed" countries that at the WTO argue that large EMEs must assume full trade responsibilities, these same countries are preventing large EMEs from raising their quotas to levels proportional to their increased weight in the world economy.

As I repeatedly moved back and forth from the WTO to the IMF board, I could experience this contrast personally. I found it almost schizophrenic. As if trade ministers and finance ministers never talked to each other.

The Fund reviews its quotas every five years. Each review is an opportunity increase IMF genuine resources and redistribute relative quota shares in favour of the most dynamic economies, predominantly large EMEs.

There have been some quota increases, the last in 2010 (and implemented only in 2016). But since then, there has been no progress and, as you can see in this slide where IMF members' surface is represented by their quota shares, the **IMF still very much looks like an organization driven from the North-Atlantic.**

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Asia is conspicuously underrepresented. China, India, and Indonesia have quotas that are only represent a fraction of their share in the world's output. Arguably, they are IMF's most under-represented EMEs **and China and India are WTO's largest "developing countries"** (Figure 2).

Persuading them to accept full trade responsibilities at the WTO may depend on their capacity to get a fairer representation at the IMF.

Getting this straight is very important for the Fund (not just for the WTO).

As it has been so difficult to persuade advanced economies to agree on a "new quota formula" that could give more weight to economic output, let alone to increase quota accordingly, most of IMF's capital now depends on loans, not on quotas.

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Does this matter?

Yes, it does. Firstly, it undermines the IMF's legitimacy as loans don't provide voting rights, but it also weakens the Fund. Loans as the "New Agreements to Borrow" are only available is they are previously activated. This implies that every six months (or less) the MD must consult with lenders (read "negotiate" with the main lenders) to get their approval, as NABs are only activated with the support of 85% of total credit arrangements.

The US, the EU, Japan and the BRICS (if they act together), could block/condition the activation of the NAB. So far it hasn't happened, but it could. And in a fragmented world that is not unimaginable.

In sum, the Fund is no longer “quota based” institution. It must pass the hat around and in a fractured world it may have to persuade or compete with other “hats”. Perhaps Asian hats….

Can something be done about this?

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Moving from a “rules-based order” into a “deals-based order” would entrench geopolitical fragmentation, endangering international peace. So, it is worth trying.

If we want to preserve an economically integrated world, trust in the IMF and the WTO must be reinforced. For that they must be reconciled with reality. Both organizations have been overtaken by economic developments that shaped a different world from the one where they were conceived. They must be updated.

It is a matter of “connecting the dots”.

At the IMF advanced economies should allow quota increases for the most dynamic economies, prominently China and India. This would reinforce its core capital and prop up the IMF’s legitimacy as a truly universal institution.

On the other side of the Atlantic, large EME, prominently China and India, should be ready to assume full trade responsibilities and cooperate in ensuring that S&D treatment provides tangible benefits to those countries that need it most.

Symmetrical reforms are necessary to balance the deal. **Fairer IMF representation would reinforce IMF’s legitimacy, strengthen its lending function and make it politically feasible for large EMEs to assume full trade responsibilities at the WTO.**

Putting things straight on both sides of the Atlantic could breathe new hope in multilateralism. **But could it be done?**

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It will be complex. At the WTO trade ministers cannot undertake commitments for their peers sitting at the IMF Board of Governors. Whereas at the IMF, finance ministers and central bank governors cannot commit to reforms that must be approved by their peers sitting at the WTO ministerial meetings.

It will require leadership and a lot of diplomacy.

It should start at the G20. The G20's membership is narrower than the IMF's and WTO's. But its members account for around 90% of global GDP, 80% of trade, and two-thirds of the world's population and the IMF's MD and the WTO's DG are regularly invited to brief the heads of state at their meetings.

Naturally the chiefs of government are not going to enter the technicalities, but they could advance guidelines to be carried out by finance and trade ministers.

We are lucky to have two daring ladies at the helm of the WTO and the IMF. Both come from DC's 19 street, and both are used to rub shoulders with policy makers.

If they dare, I am optimistic.

[The fifteenth and most recent review (in 2020) concluded with no agreement to increase quotas (hence no redistribution of relative sway was possible). The sixteenth review (ongoing) should be completed no later than December 15, 2023 but it is not making much progress.]