



The New Global Economic Governance

Can Europe Help Win the Peace?

Marco Buti

**Director-General, DG for Economic and Financial Affairs,
European Commission**

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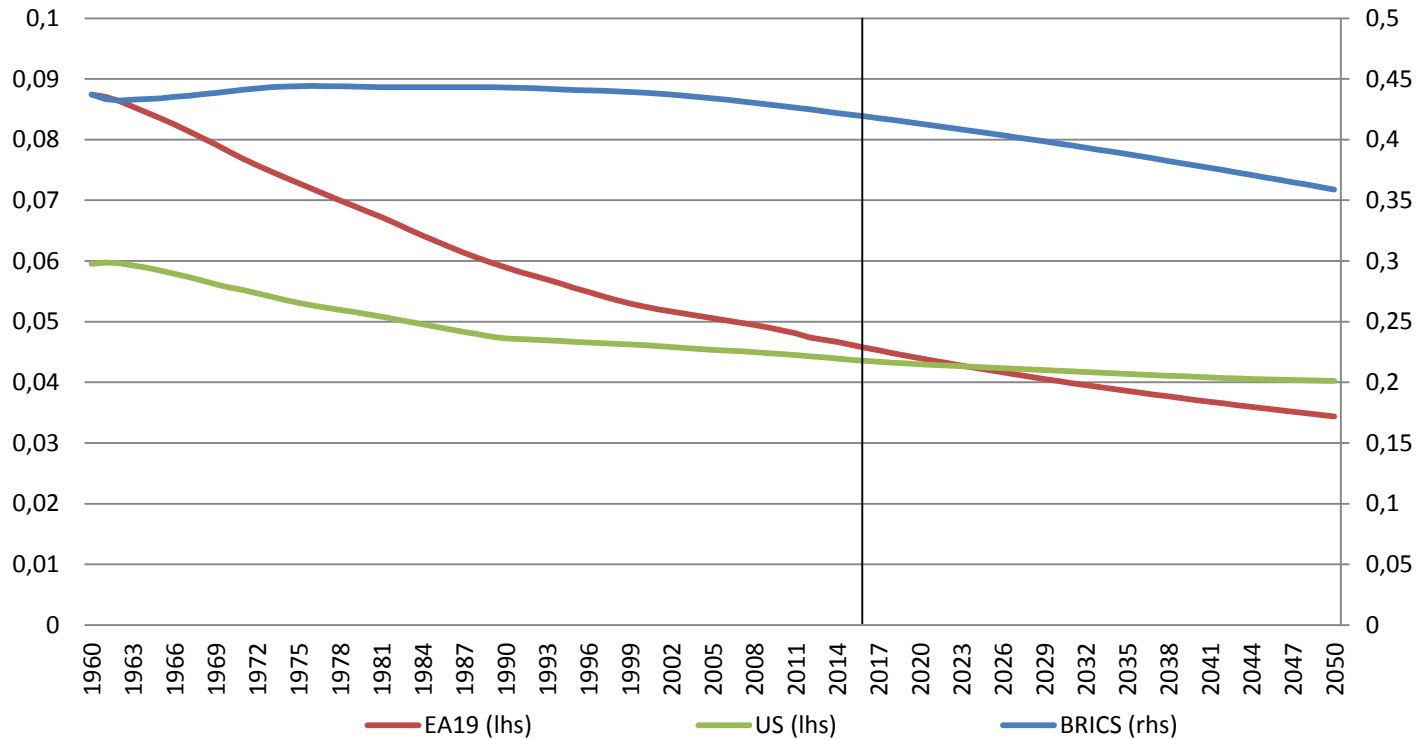
Outline

1. Long-term trends in the global economy
2. Global economic governance in historical perspective
3. Impact of the financial crisis on global governance
4. G20: key achievements and challenges
5. A new development: G7, not quite like-minded
6. Challenges to multilateralism
7. Preconditions for the EU to count
8. Conclusions



1. Long-term demographic developments

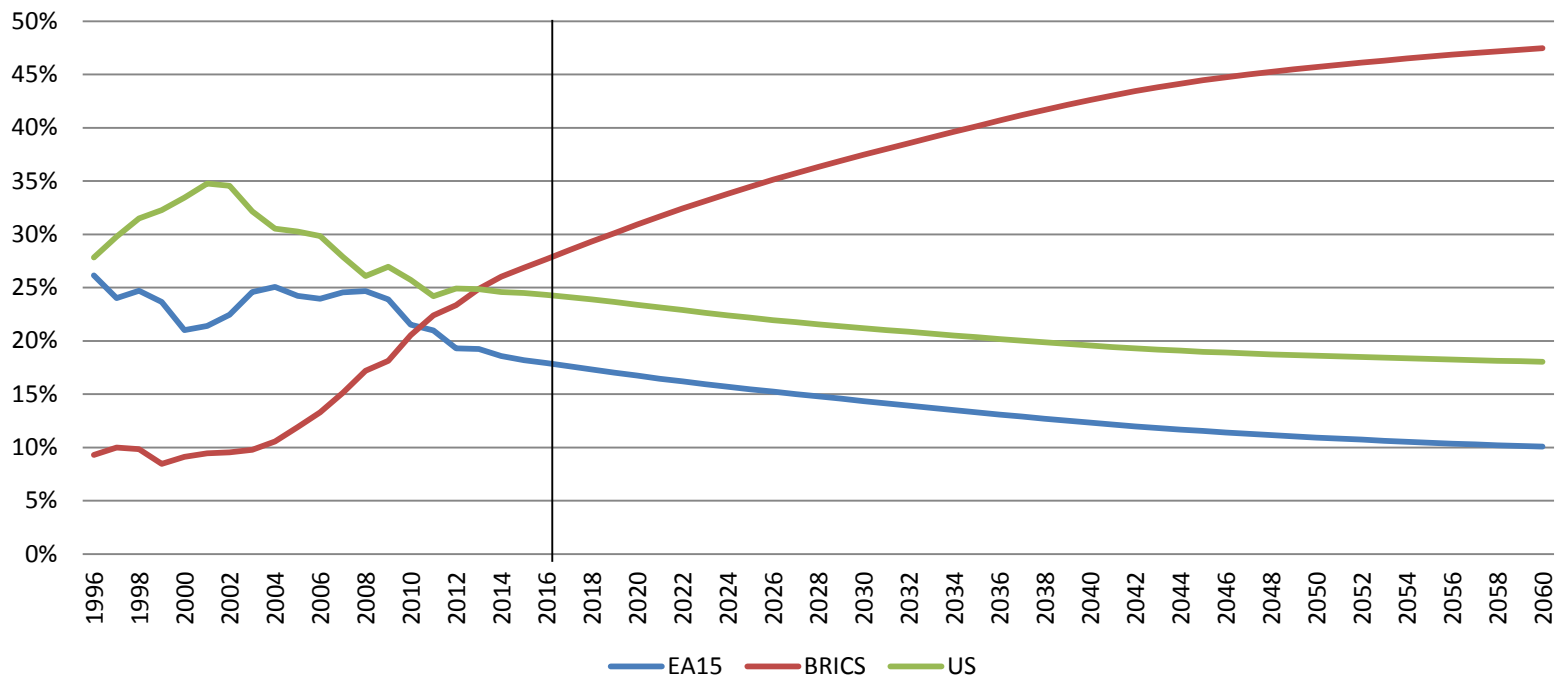
Population of EA19, US and BRICS as share of world population



Source: World bank data

1. Long-term GDP developments

Real GDP at market exchange rates, share of world total



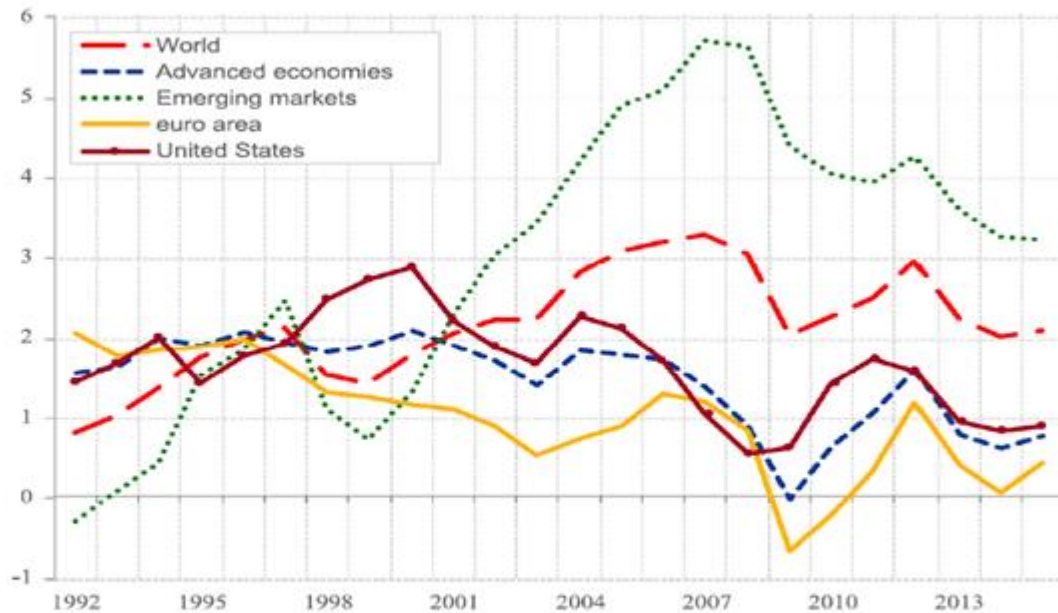
Source: OECD long-term baseline projections (June 2013).

Notes: 1) Actual GDP data until 2012. From 2013 to 2015, GDP data from the OECD Economic Outlook. From 2016, GDP data from the OECD long-term baseline projections.

2) EA15 includes AT, BE, DE, ES, EE, FI, FR, EL, IE, IT, LU, NL, PT, SK and SI. The OECD does not provide data for the rest of the EA member states.

1. Long-term productivity trends

Labour productivity growth in the main regions
annual percentage changes, three-year moving averages



Source: Conference Board. Note: Labour productivity is measured as output per employee.

2. Global economic governance in historical perspective

- Post-WWII: global economic governance structured around the Bretton Woods system (IMF, World Bank) and GATT (later WTO)
- International monetary order was essentially unipolar: central role of US dollar
- First oil price shock brought down the system
- Triffin predicted the end of the Bretton Woods System already in 1960

2. Global economic governance in historical perspective

- End of Bretton Woods and painful emergence of a more multipolar system with multiple pillars (e.g. at the level of currencies: dollar, euro, yen, renminbi, ...)
- But the Triffin dilemma is still with us
- Rise of emerging and developing economies, facilitated by the success in trade liberalisation



3. 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

3. 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 (e.g. IMF, World Bank)
- G20 elevated to Leaders level: key global forum



4. G20: key achievements and challenges

- G20 2009 Pittsburgh summit: Leaders designated G20 as "premier forum for our international economic and financial cooperation".
- G20 brings together key advanced and emerging economies and has demonstrated that it can take swift and decisive action, for example in dealing with the global financial crisis in 2008-2009.
- G20 has helped to reduce the mistrust between advanced economies and emerging markets for the benefit of all



4. 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?

4. G20: key challenges

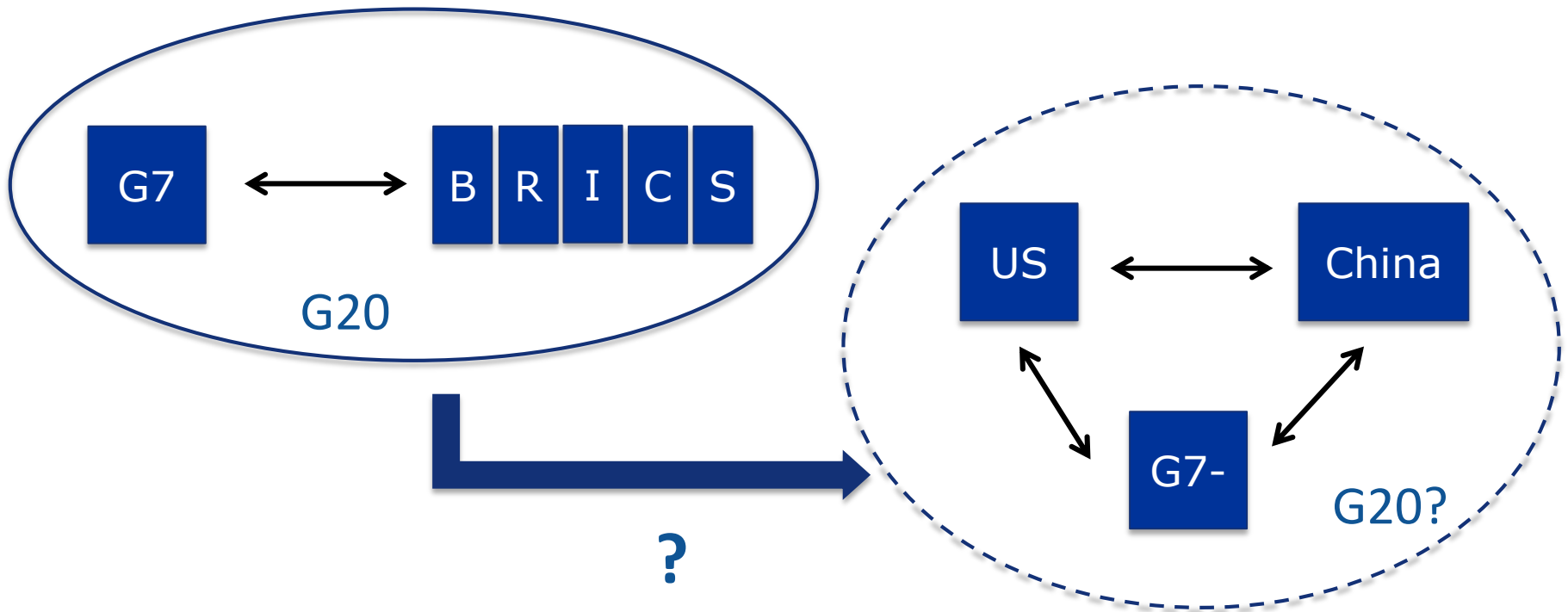
- Moving from short-term crisis response to cooperation on long-term challenges for the global economy: "winning the peace"
- Delivering on implementation of existing commitments (e.g. on tax transparency, financial regulation)
- Finding points of common interest among diverse G20 membership to drive 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
- Risk of renewed global imbalances

5. 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

5. A new development: G7, not quite like-minded

A new dynamic game?

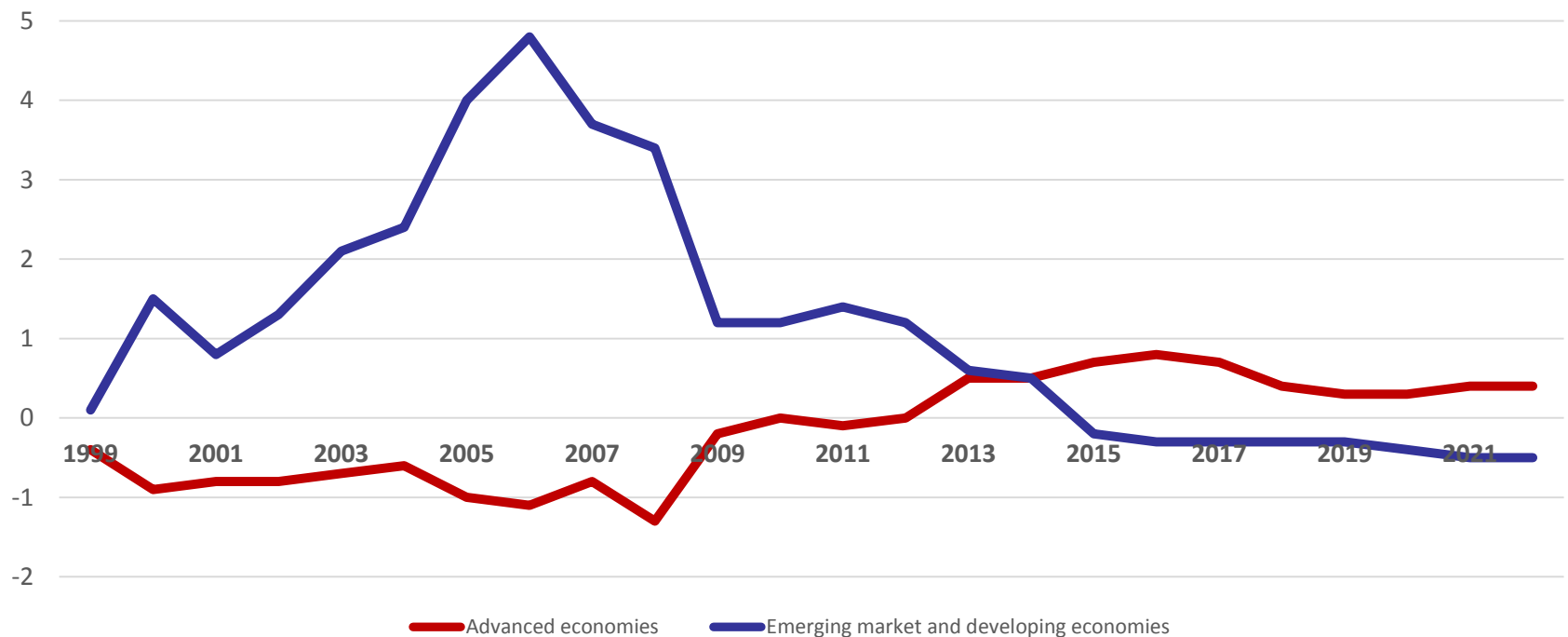


6. Challenges to multilateralism

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

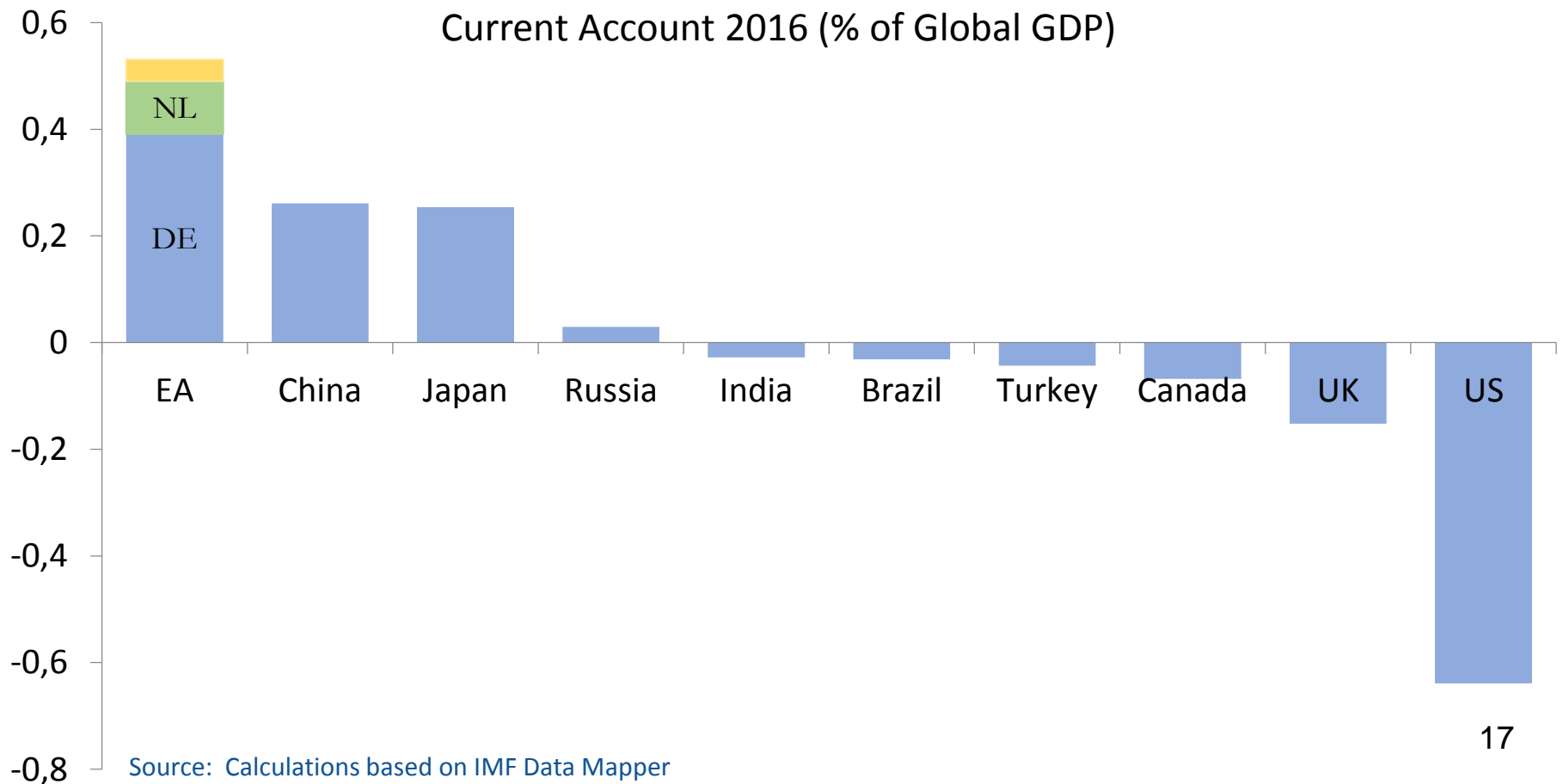
6. Challenges to multilateralism: Renewed global imbalances as trigger

Current Account (% of GDP) and Projections



Source: IMF Data Mapper

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

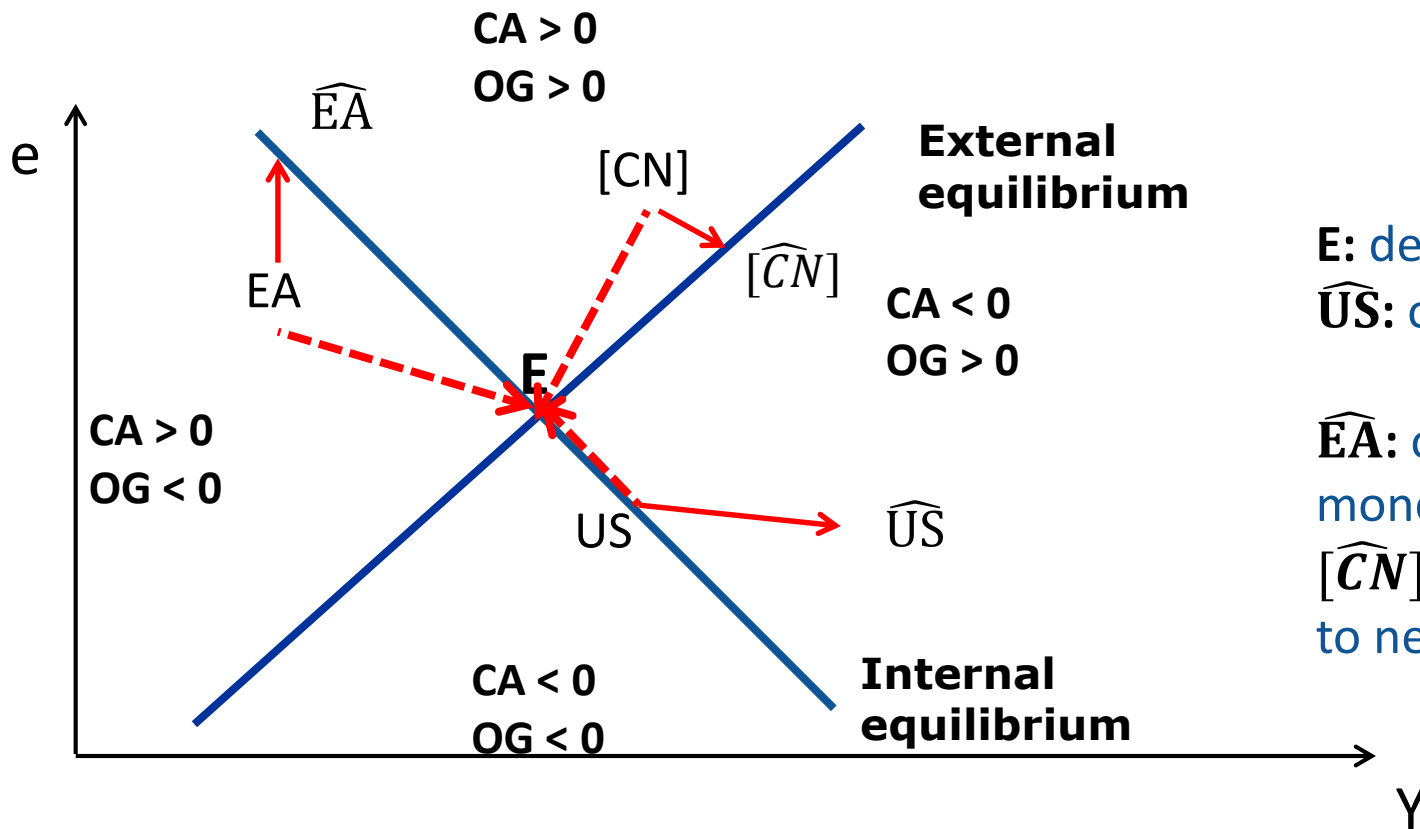




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Challenges to multilateralism

Global imbalance fuelled by unbalanced policy mixes



E: desirable equilibrium
US: over-expansionary fiscal policy
EA-hat: over-reliance on monetary policy
[CN-hat]: difficult transition to new growth model

7. Preconditions for EU to count: overcoming weaknesses

- Projecting strength externally requires internal strength: need for internal EU cohesion
 - Completion of the Single Market
 - Complete the EMU architecture
 - Overcome political challenges, in particular Brexit
- Shed the "small country syndrome"
- Reflection paper on EMU

7. Preconditions for EU to count: overcoming weaknesses (continued)

- EU/euro area at risk of "reverse creditor paradox"
 - Traditionally, creditor countries hold strong position vis-à-vis debtor countries in global governance
 - This asymmetry now reversed: euro area's large and persistent current account surpluses are a sign of economic weakness and a source of political vulnerability
- 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)

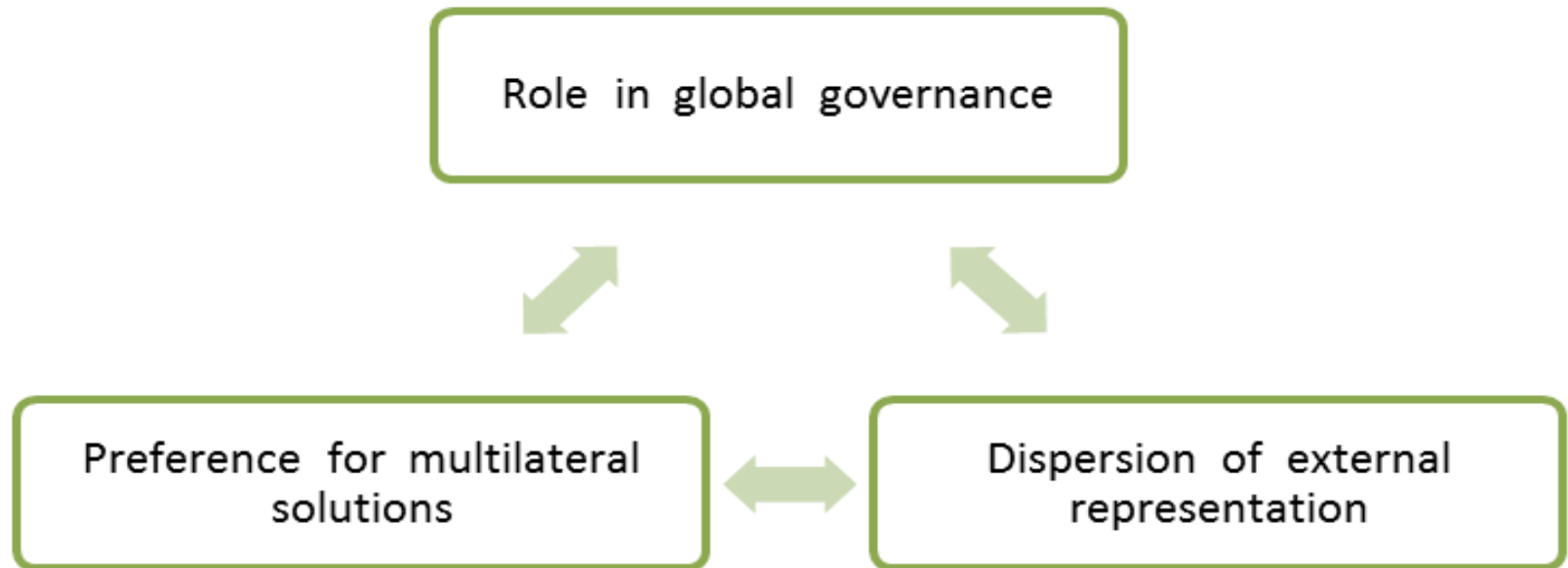
7. Preconditions for EU to count: leveraging strengths

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 than the US social model, still more to be done (European Social Pillar)
- 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

7. Preconditions for EU to count: drawing the institutional implications

Overcoming the inconsistent trinity



8. 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*

But most important of all,
clarity on G20 political relevance

" ... the construction of a stable and freer system of world trade and payments must be conceived as a continuing and permanent effort to adjust international institutions and policies to new needs and new possibilities."

- Triffin, R., *The Future of the European Payments System*, Stockholm, Almqvist and Wiksell, 1958, (pp.25-26)



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THANK YOU