

What a Moment for the Global Economy!

BY AMBASSADOR CHARLES RIES

The dust is still settling after the U.S. presidential election. A rampaging coronavirus pandemic, heading to second and third peaks in major industrial countries has led to new lockdowns. The United States, still the lynchpin of the global system, is expected to have negative 4.3% growth this year, after a heart-stopping 31.7% GDP collapse in the 2nd quarter. The IMF is expecting negative growth in Europe of more than 7%. Only China, where the coronavirus started, is growing (by 1.9% this year and the IMF thinks 8.4% next year).

But that is not the only challenge. For the last three and a half years, American trade authorities have imposed punitive tariffs on hundreds of billions of dollars of goods, on China but also on close allies in Europe and Canada. In turn, all these countries have retaliated against U.S. exports. France is threatening to tax digital service providers. In January, the U.S. agreed to forego, or to lift some tariffs on China in exchange for an egregious “managed trade” deal to buy farm commodities, energy and other goods equal to \$200 billion. But as of the end of September, the Chinese were still well off target.

Beyond these headlines, there are other critical issues that beset the international economy. It has been a year in which the harm of climate change have been evident: historic fires in Australia, the U.S. West, and the Amazon have devastated thousands of square miles, as well as droughts in Africa and hurricanes in the Gulf of Mexico. COVID-19 has killed over a million citizens worldwide. COVID-19 has also accelerated structural changes in developed economies around the world, putting at risk commercial real estate, higher education, aviation manufacturing, and entire service sectors including travel and tourism. Sequential layers of individual and entity-based sanctions aimed at proliferation, human rights, aggression and corruption are tying the international financial system in knots.

At other points in post-war history, overlapping challenges have been overcome only through effective international economic policy coordination. At the end of World War II, major countries came together to create the Bretton Woods institutions. Effective international economic coordination also helped design strategies to deal with stagflation and energy challenges in the 1970s; exchange rate imbalances and terrorism in the 1980s; coping with the end of the Soviet Union and redesigning global trade rules in the 1990s; and responses to global health challenges such as AIDS, malaria and global terrorism after 9/11 in the 2000s. The U.S. normally played a leadership role in making cooperation happen, but so has Europe, and on occasion other leading countries.

Last week, IMF Managing Director Kristalina Georgieva said that the time could be right for “a new Bretton Woods moment.” She is right. We have to find a way through the multiple challenges the international economy faces, not just to restore international growth, but also to rebuild domestic support for open economies cooperating in their best interests and in dealing with the challenges the global economy faces.

What policies need to (and don't need to) be coordinated?

Obviously, it is important that the immediate health crisis be addressed. Stopping the pandemic, caring for those afflicted and producing and administering an effective vaccine are urgent needs. Related is a question has not gotten enough attention: how to certify and verify vaccination status to allow reliable travel again. There I think the problem is one that has been faced before: we may need to find ways to make the venerable WHO vaccination record reliable and scannable, as we did with passports, visas and shipping documents after 9/11.

Durable economic recoveries in developed countries may also be needed. In her speech at the Bank/Fund meetings, Kristalina Georgieva pointed out that we have already seen global fiscal relief actions of \$12 trillion and central banks expand their balance sheets by \$7.5 trillion. But more will likely be needed, and, as after the 2008 crisis, and in the 1980s, countries can better tackle requirements on this scale if they do it together.

But there are many other coordination challenges that have arisen in recent years, some as a result of national policies that have been attempted but haven't worked as expected, others that have been postponed or dodged.

The trade system is very badly stressed. In 2018, the U.S. used the Trade Act's Section 232 security rationale to raise tariffs on steel and aluminum products, even though in many cases the imports were coming from close allies. Beginning under the Obama administration the U.S. has objected to the working methods of the WTO's Appellate Body and unilaterally brought its work to a halt by refusing to appoint judges. And there are the panoply of American tariffs imposed on China in the current trade war, originally placed in retaliation for discriminatory technology and licensing practices, but escalated to very high coverage in a series of retaliatory rounds. But there are COVID-19 related trade problems too: the disease highlighted the dependence of the U.S. and other countries on China for essential medical protective devices like masks and gloves, and all manner of active pharmaceutical ingredients and in its initial stage led to damaging export bans. Supply chain security is on the agenda for the first time since the 1970's.

As the world economy shifts to services and their remote delivery, the corporate taxation system is uncomfortably stuck in a sovereign territory model. We may need to consider a fair way to adjust, rather than see a plethora of unilateral approaches, such as France's digital services tax or the U.S. Global Intangible Low-taxed Income Tax, endearingly abbreviated as "GILTI."

More aggressive industrial policy plans, especially in AI and other high-tech fields, have been holding up the EU-UK post-Brexit arrangements. But the U.S., Japan, China and others also have such plans. International rules, and cooperation in applying them, seems worth consideration to maintain fair competition while allowing the U.S. to upskill for the future. Likewise, we need to find ways to manage trade with state-owned enterprises, in China and elsewhere.

Finally, and perhaps most importantly, is climate change. Joe Biden has promised to rejoin the Paris Agreement and to support action against climate risks. With the U.S. back at the table to discuss climate change strategies, the focus would inevitably turn to how to engage with Europe and others on the tricky task of designing a carbon border adjustment mechanism to account for differential climate efforts. This checks the domestic manufacturing and climate change boxes together and would likely be welcomed by many. There are of course major technical and political issues, like digital taxes, that probably will be chewed over for years before anything happens.

How to manage multilateral economic coordination?

These and many more issues are not easy, not to speak of the equally thorny security and political cooperation issues the world also will face in the coming years. How should they be addressed? Institution by institution, as from WTO to WHO? Through the global G20 grouping? Ad hoc, issue by issue? Through the UN system?

I am not one who is of the view that now that Biden is elected and is set to experienced and sober officials to help him, a traditional transatlantic relationship will just miraculously resume and a renewed American leadership and commitment to the rules-based liberal international order will just happen. To be fair, I don't know of anyone else who thinks that either. We understand that the world has changed in the last half decade, the issues are hard,

and our publics expect different things. I also don't believe that Europe can assume that an America under a Biden administration would adopt its perspectives and not ask for any difficult compromises to address the challenges we face. A Biden administration may be interested in international economic cooperation to be sure, but will have its own perspectives and interests and to make it all work Europe, Japan and other leading countries will have to make compromises on issues even if they celebrate a return to more collaboration. But as to the mechanics, one possibility to consider is that what may be needed is a "Back to the Future" solution. I mean a return to the classic G-7 of the 1975 to 1995 period as the primary driver of international economic cooperation.

Institutions like the UN Security Council, World Trade Organization, International Monetary Fund and G-20, as well as smaller institutions, can play important roles in making the international economy work. But for leadership and direction, it may well be that structurally and politically the G-7 would need to lead. This is because, first of all, it isn't an institution. It brings together for an annual two-and-a-half day summit the leaders of the seven leading developed countries, including the UK, as well as the EU Commission and Council Presidents. The agenda is prepared by four or five focused meetings of the leaders' "Personal Representatives" (at times called "sherpas"), with the idea of reaching common positions that can then be referred to the other multilateral institutions for implementation in accordance with their rules. The G7 of the classic period also flanked the leaders with their foreign and finance ministers – and trade ministers for trade issues. The Personal Representatives take notes and transform agreements into communiqués afterwards. Leaders thus buttressed can make decisions.

After 1996, the G-7 transformed from the Rambouillet model. Over the subsequent 20 years, it started to lavish its meetings with new delegates, from developing countries and international financial institutions. From 1994 to 1997, Russia was invited to an add-on political meeting, the P-8, then invited to join the group in its own right, which became the G-8 in 1998. That was an effort to treat the Russia of Boris Yeltsin as a responsible global leader. But once Russia was at the table, serious discussions of trade, monetary or environment policies fizzled out even though countries met at seven before the G-8 began. After Putin's seizure of Crimea in 2014, Russia was ejected and it became the G-7 once again. Then, in the aftermath of the 2008 financial crisis, the existing G-20 group of Finance Ministers began meeting at the Summit level. This broad north-south/east-west grouping was hosted by President Obama in Pittsburgh in 2009. While symbolically great, and certainly more representative, the G20 proved of limited utility for making hard economic decisions, especially those that primarily affected deep economic relationships between Europe, North America and North Asia. Moreover, it seemed to prevent G7 leaders from reaching compromises on major issues amongst themselves.

During the Trump Administration, the U.S. did not seem to take most plurilateral international meetings seriously, including the G7. Bilateralism was the watchword, in the expectation that transactional arrangements with countries one by one would maximize U.S. leverage, though it left little room to assemble broad coalitions of countries to take common action, as we discovered in the pandemic.

In 2018, as the U.S. trade war was beginning in earnest, the President left the Canadian-hosted G7 early and after he was gone, he disavowed the trade paragraph of the communique. In 2020, it was America's turn to host the G7, though there was little evidence of serious preparations even before the pandemic hit. When German Chancellor Angela Merkel would not commit to attending the September G7 in-person, Trump canceled it altogether.

Now that Joe Biden has been elected president, one option to consider might be that his administration could approach the UK to ask for a G7 "do-over," specifically that the UK which would otherwise host the G7 next year, let the U.S. have another chance at leading the group as the keystone of an effort to revive international

economic cooperation. The G7 in turn could be used to give impetus to revive a raft of international institutions to deal with our common economic objectives: economic recovery, trade, technology, health, climate, a common front towards China's bad investment practices and all the rest. And such an administration could appoint a senior NSC or NEC official to take the lead as Sherpa to prepare a meaty, hopefully in-person meeting over days of substantive work. The meeting could take place before the 2021 G20 to be hosted by Italy, and aim to give impetus to work there, in the OECD, in the IMF, in the WTO, the WHO and the many other functional multilateral institutions that can together revive and reorient international cooperation.

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