

WEAK INTERNATIONAL ECONOMIC COOPERATION

IN RESPONSE TO THE COVID-19 CRISIS



by
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I. INTRODUCTION

The COVID-19 hit the world in the midst of a process of weakening multilateralism. The most worrying element is the very skeptical view of multilateral cooperation by the United States, which is a significant historical change, since the U.S. was the great leader in the construction of a multilateral order in the post-World War II era, including of the creation of the United Nations 75 years ago. The return to a bipolar confrontation between two major powers may also be seen in part as a return to the Cold War years – fortunately with no prospects of a real war—, or to the world as a scenario of confrontation among major powers that characterized the pre-World War I era. The tensions within the European Union, the most important multilateral agreement in history, are also noticeable. International trade has been one of the scenarios of weakening multilateralism, as reflected in what has come to be known as the “trade war” between the U.S. and China, the unilateral trade actions taken by the U.S. vis-à-vis trading partners using in several cases the concept of national security and the crisis of World Trade Organization (WTO), including the suspension of the WTO’s Appellate Body in December 2019, which affected the best mechanism of international dispute settlement in the global system.

On the positive side, the three agreements reached at the United Nations in 2015 stand out and have received renewed commitments: Agenda 2030 and its Sustainable Development Goals (SDGs), the Financing for Development agenda approved in Addis Ababa, and the Paris Agreement on Climate Change. Unfortunately, the last has already been tarnished by the decision of the U.S. to leave the Agreement, the failure of the December 2019 meeting in Madrid to reach a consensus on the functioning of a global carbon market, and the fact that the voluntary targets set by countries are broadly recognized as insufficient to meet the Paris goals. Also, on the positive side, international negotiations on digital taxation have continued in the context of the OECD Inclusive framework, leading hopefully to a deepening of the Base Erosion and Profit Shifting (BEPS) agreement reached a few years ago,

although again with the U.S. refusing to fully participate in this process. The changes in financial regulation triggered by the G-20 after the 2008-09 North Atlantic financial crisis¹ have also continued, although with partial reversals in some major economies and the (correct) decision to make them more flexible to manage the financial effects of the COVID-19 crisis.

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On top of these trends, the world economy has been hit by the deepest and most synchronized recession in world history—a 6.1% reduction of world GDP at market exchange rates according to the most recent IMF projections (IMF, 2020e). The speed of the short-term contraction has been stronger than during the Great Depression of the 1930s, but hopefully, and despite the major uncertainties surrounding the recovery, it would be a shorter recession. Some of its major implications have been a steep contraction of

1 I prefer this to the generally used term “global financial crisis” because, although it did have global effects, it focused on the U.S. and Western Europe.

international trade, in the context of slow growth in world trade since the North Atlantic financial crisis and the contraction that it had already experienced towards the end of 2019 due to the U.S.-China trade war. Financial turbulence was also sharp at the onset of the crisis, but it has been followed by a remarkable recovery thanks to the very expansionary monetary policies adopted by the developed countries' central banks. International migration flows have also been severely disrupted and have generated a major fall of remittance flows on which many developing countries depend.

This paper analyzes several of the dimensions of weakening multilateralism in the area of economic cooperation during the COVID-19 crisis. It is divided into six sections, the first of which is this introduction. The next will present a general view of cooperation during the current crisis. Sections III and IV will then look at the international financial cooperation in the monetary area and in development financing, respectively. Section V will analyze global trade and VI international tax cooperation. Two areas that do not strictly belong to economic cooperation are left out of the analysis: cooperation in the health area and the fight against climate change.

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II. AN OVERVIEW OF INTERNATIONAL ECONOMIC COOPERATION DURING THE COVID-19 CRISIS

The pandemic is still spreading worldwide at the time of writing this paper, though with significant differences in the effects it has had on several countries. It started in China and spread to East Asia and Europe, with strong effects in several European countries. The U.S. then became the epicenter, with two waves in different parts of the country. Latin America became the new epicenter in June, and it is now spreading in India, the rest of South Asia, and sub-Saharan Africa, and shows signs of a second wave in some European countries. The international literature has highlighted the fact that developing countries are economically and socially more vulnerable, due to several factors: the more limited fiscal space to respond to the crisis; the fact that the poor live in small and crowded spaces, sometimes without access to water; health systems with low quality and do not cover the whole population; and employment informality, that together with confinement, has left a wide section of the population with no income.

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International cooperation has been limited, both in terms of actions as well as resources.

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For these reasons, international organizations have argued that there should be very ambitious policies to support emerging and developing countries, with the financial resources needed being in the order of \$2.5 trillion, according to both the IMF (Georgieva, 2020) and UNCTAD (2020a). However, international cooperation has

been limited, both in terms of actions as well as resources. There have been somewhat more relevant actions for low-income countries –particularly in terms of multilateral financing and some debt relief initiatives—but weaker vis-à-vis middle-income, including emerging economies.

The weakness of multilateral cooperation has been particularly evident in the statements and actions launched by the Group of 20 (G-20), both at the Heads of State level as well as in the context of the Spring meetings of the Bretton Woods institutions’ that took place (virtually) in April. The Heads of State of the G-20 expressed at the end of March its sense of solidarity and committed “to do whatever it takes and to use all available policy tools to minimize the economic and social damage from the pandemic, restore global growth, maintain market stability, and strengthen resilience” (G-20, 2020a). However, the actions taken have been very limited, as we will see in this paper.

The contrast of actions during the current crisis and those taken by the G-20 during the North Atlantic crisis is striking. Indeed, the “Global Plan for Recovery and Reform” adopted by the G-20 Heads of State in London on 2 April 2009 (G-20, 2009) included: the largest issue of IMF’s Special Drawing Rights (SDR) in history, a major reform of IMF credit lines, the capitalization and massive increase in the lending by multilateral development banks (MDBs), and an ambitious reform of financial regulation; there was also an agreement to increase and redistribute IMF quotas, though unfortunately it took five years for the additional capital to be approved by U.S. Congress. The G-20 also committed in 2009 to avoid trade restrictions, trying in this regard to avoid the repetition of the experience of the Great Depression, when protectionism deepened the crisis. Later, it launched a process to strengthen international tax cooperation, a task that was assigned to the OECD, and to the adoption in 2012 of the so-called “Institutional View” of the IMF on capital flows that justifies capital

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There is also a remarkable contrast between the limited multilateral action and the ambitious domestic policies adopted by developed countries, including the regional policies adopted by the European Central Bank and the European Union.

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account regulations as a prudential policy instrument under certain circumstances.

There is also a remarkable contrast between the limited multilateral action and the ambitious domestic policies adopted by developed countries, including the regional policies adopted by the European Central Bank and the European Union. These policies include government spending packages, reduction or deferral of taxes, provision of liquidity by central banks, and credit lines and loan guarantees for the business sector. Both in fiscal and monetary terms, the IMF estimates that the packages adopted in 2020 are stronger than those adopted to tackle the North Atlantic financial crisis, particularly in the case of the U.S. (IMF, 2020b, 2020c, 2020d and 2020e). In fiscal terms, the U.S. will run a fiscal deficit equivalent to 23.8% of GDP, Japan to 14.7%, the United Kingdom of 12.7%, and the Euro Area of 11.7% (IMF, 2020e, Annex Table 1). The adoption of a European Union package, to support in particular the countries most affected by the pandemic, was mired in complex negotiations, but finally led to the approval in July of a €750bn recovery fund, that includes €390bn in non-repayable grants, and will be financed for the first time with Eurobonds.

In terms of monetary policy, the interventions by the U.S. Federal Reserve (Fed) have also surpassed that adopted in 2008-09, not only in its magnitude but also in the purchase of less secure assets. As we will see below, it also put in place a swap arrangement to provide dollar liquidity to other central banks, mainly from developed countries. Japan, the United Kingdom, and the Euro area have also adopted expansionary monetary policies, and some have put in place ambitious loans and loan guarantee schemes for the private sector. The aggressiveness of the monetary and financial policies, particularly of the U.S. implied that the contraction of financial markets was weaker than during the North Atlantic financial crisis and led to a recovery of the bond and stock markets since late March, which within weeks also benefited bond financing

for emerging economies (see next section). In fact, in the public debate, the large asymmetry that characterized the second quarter, between the strongest quarterly recession in history and the positive trends in financial markets, has been highlighted as a paradox.

Viewed overall, the contrast between the aggressive domestic economic policies of the developed countries and the limited international cooperation has been an important mark of the current crisis. In the case of the U.S., the contrast has been particularly noticeable. In contrast, European countries have been more balanced, as their pronounced counter-cyclical policies have been mixed with openness to multilateral cooperation, though with somewhat limited results, given the inability to bring the U.S. on board.

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III. INTERNATIONAL MONETARY COOPERATION

The international monetary agenda includes four major issues: the provision of international liquidity; guaranteeing that the IMF has adequate resources to finance its programs; the expansion and eventual reform of IMF credit lines; and the active use and expansion of regional monetary agreements.

In the broader financial area, it can be complemented with proposals on debt relief for emerging and developing economies, coordination of regulation of capital flows, and possible regulation of risk rating agencies.²

An important proposal that has been on the table is issuing at least \$500 billion of IMF's SDRs, doubling the amount issued in 2009.³ There have been more ambitious proposals to issue \$1 trillion or even more, but if it surpasses the amount of total quotas in the IMF (about \$650 billion), it would require approval by U.S. Congress, a fact that could delay its approval. This proposal, which has broad support in the IMF membership, including from European countries, was vetoed by the U.S. during the Spring Meetings of the Bretton Woods Institutions, with the argument that close to 70% of the resources would go to G-20 countries, the majority of which did not need them to tackle the crisis. Surprisingly, India supported the view of the U.S. but later changed its views in favor of the proposal.

Emerging and developing countries would receive close to two-fifth of the SCRs that are issued, thus significantly increasing their foreign exchange reserves.⁴ As an

extended historical debate has indicated, a useful reform in favor of these countries would be distributing the new SDRs emitted based on quotas but also on additional criteria.⁵ However, this would require a change in the IMF Articles of Agreement, which would be a prolonged

process and hard to accept by the principal members. To make better use of new SDRs and those that have not been used by countries, a special fund could be created to allow those SDRs to be lent to the IMF to fund its programs, or use them to support other programs in favor of developing countries (capitalize multilateral banks or increase official development assistance).

It is worth adding that, to facilitate other countries' access to dollars, the U.S. Fed relaunched its swap lines with other central banks, a mechanism similar to that adopted during the North Atlantic financial crisis. However, only two emerging economies have access to this mechanism (Brazil and Mexico; the Republic of Korea and Singapore also do, but they are now high-income countries). The use of this facility reached levels below those that it did after the collapse of Lehman Brothers in September 2008, and has been falling

since June. The Fed also launched a repo facility to buy Treasury bonds that countries want to sell, a mechanism that, of course, mainly benefits countries with large amounts of foreign exchange reserves.

In terms of resources available to the IMF, an unfortunate decision was adopted in 2019 to defer the discussion of quota increases until 2023. It is unfortunate that the

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2 See a detailed analysis of these issues in Gallagher et al. (2020), from which I partly borrow here.

3 For an early version of these suggestions, see Gallagher, Ocampo and Volz (2020).

4 See Collins and Truman (2020) for an analysis of the benefits for low-income countries.

5 As reflected in a lengthy historical debate, the alternative criteria could be level of development (to allocate a larger amount to the poorer countries), or the demand for international reserves of different economies. See an analysis of this issue in Ocampo (2017), Chapter 2.

G-20 has not decided to accelerate this process in the face of the COVID-19 crisis, and the strong agreement that quotas must be the institution's principal resource. The alternative decision, adopted in January 2020, was to double the New Arrangements to Borrow (NABs), to close to \$500 billion and to increase bilateral credits from several countries. The major contribution of the U.S. to IMF financing would be its support for the NABs.

In terms of creation and enlargement of credit lines, the most important reform was the doubling of the IMF's emergency credit lines: the Rapid Credit Facility (RCF) for low-income countries and the Rapid Financing

Instrument (RFI) for middle-income ones.⁶ Supported by the simplification and streamlining of procedures, this decision is giving rise to the rapid approval of a multiplicity of credits to a wide range of countries: it has benefitted 80 countries with close to \$30 billion in credits—in any case, a modest magnitude (Table 1). The region that has benefitted the most is Africa, followed by the Middle East and Central Asia, and Latin America and the Caribbean. Most countries have received the equivalent of 50 to 100% of the quota, but there are a few cases in which the amount has been more limited.⁷ The fundamental advantage of these lines—at least in the way they have been approved during the crisis—is the absence of conditionality.

TABLE 1 - EMERGENCY REQUESTS APPROVED

IMF Department	Number of countries	Million dollars
Africa	37	14
Asia Pacific	8	1
Europe	6	1
Middle East and Central Asia	12	6
Western Hemisphere	16	4
Total	79	29

Source: International Monetary Fund

Aside from the emergency facilities, very few additional credits have been approved. The most important are the Flexible Credit Lines (FCL) approved for Chile and Peru, and the renewal of that of Colombia, for a total of close to \$45.7 billion. The FCL operates as a precautionary facility—potential additional foreign exchange reserves—and no country that has had access to it in the past (Colombia, Mexico, and Poland) has drawn from it. Four Stand-by Agreements (SBA) have been approved for Armenia, Honduras (mixed with an SCF), Ukraine and

Egypt for a total of \$10.6 billion. The total amount of resources approved is close to \$86 billion, no doubt a minimal amount given the magnitude of the crisis. Eleven credits for African countries have also been extended or re-phased. The limited use of the SBA so far may be due to the long process of approval that these loans require, but may also reflect the “stigma” associated with IMF conditionality, which is absent in the emergency facilities and the FCL.⁸

6 On these and other reforms introduced by the IMF, see IMF (2020a).

7 There is the possibility that they can be added to the use of other Fund facilities, but in this case the resources are granted for less than the amount of the country's quota.

8 Data on lending refers to approvals up to the end of July, as the Board was not active in August.

III. INTERNATIONAL MONETARY COOPERATION

An important recommendation that has been under the table in recent years is the creation of an IMF swap facility. This recommendation was made by the IMF's technical staff two years ago (IMF, 2017b) as well as by the G-20 Eminent Persons Group on Global Financial Governance (2018). In partial response to this recommendation, a short-term liquidity line was created by the IMF in April, but it is a very partial response: a revolving credit line for up to 145% of the country's quota and without ex-ante conditionality. However, access is limited to member states that meet similar criteria to the FCL –“strong fundamentals”–, but the resources are significantly smaller to those offered by that alternative. So, it is quite likely that it may never be used.

Regional monetary mechanisms significantly expanded strongly after the North Atlantic financial crisis and now have \$585 billion available, equivalent to some 60% of those available to the IMF (Gallagher et al., 2020, Table 1). The largest are the European mechanisms⁹ and the East Asian Chiang Mai Initiative. Although the deepening of relations between the IMF and regional agreements to form a denser Global Financial Safety Net has been a subject of agreement by both sides (IMF, 2017a, and Regional Financial Agreements, 2018), and there has been a dialogue between the parties during the current crisis, no action has been taken to either expand the regional funds or develop stronger links with the IMF –respecting, of course, the independence of the institutions and rejecting hierarchical principles of any kind¹⁰. In any case, that link was considered very controversial in the joint programs with European countries during the Eurozone crisis, as well as in the case of the Chiang Mai agreement. In the latter case, the link with an IMF agreement beyond a certain level of use of the associated swap arrangements is regarded as one of the reasons why it has not been used.

The complementary issue of debt relief has been the subject of several proposals (Bolton et al., 2020, Brown and Summers, 2020, Reinhart and Rogoff, 2020, and UNCTAD, 2020b). The limited actions that have been taken in this regard have been aimed at low-income countries. On April, the IMF decided to exempt 29 poor and vulnerable members from payments of debt obligations with the institution during an initial period

of six months, using the resources of the Catastrophe Containment and Relief Trust (CCRT), and raising additional funds to extend this debt relief for up to two years. In turn, the G-20 offered a suspension of debt service of all International Development Association (IDA) countries for the rest of the year, a decision that was adopted by the Paris Club. This program does not cancel the debt, which will continue to be in place and will continue to accrue interest. As Table 2 indicates, this Debt Service Suspension Initiative (DSSI) has already helped 43 out of the 73 potential beneficiaries, and particularly those considered to have high levels of external debt distress. China has also joined this initiative, striking deals with half of the low-income countries to which it had lent¹¹. Some with lower debt distress have not used it, among other reasons because some of them have access to private capital markets and are afraid they could be downgraded by credit rating agencies or would be regarded by lenders being less reliable borrowers. The total benefits have reached \$8.8 billion. Private creditors have not joined the initiative, as the G-20 had requested. It has been generally considered that the initiative should be extended through 2021 (see, among others, Brown and Summers, 2020).

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One of the interesting developments during the recent crisis has been the rapid recovery of the debt market for emerging economies that took place since mid-April.
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9 The European Stability Mechanism, the European Financial Stabilization Mechanism, and the European Union Balance of Payments Facility.

10 This means that the principle of “lead agency” proposed by the IMF (2017) must not be adopted.

11 <https://www.ft.com/content/6900c595-151b-4cfd-90bb-0be9967b7999>

TABLE 2. PARTICIPATION IN THE DEBT SERVICE SUSPENSION INITIATIVE

Participation	Risk of external debt distress	Number of countries	Potential Savings (USD millions)
Yes	In distress	4	450
	High	18	1 363
	Moderate	12	806
	Low	5	659
	N.A.	4	5 498
Subtotal		43	8 775
No	In distress	2	n.d.
	High	9	1 472
	Moderate	9	290
	Low	6	816
	N.A.	4	196
Subtotal		30	2 774
TOTAL		73	11 548

N.A.: not available

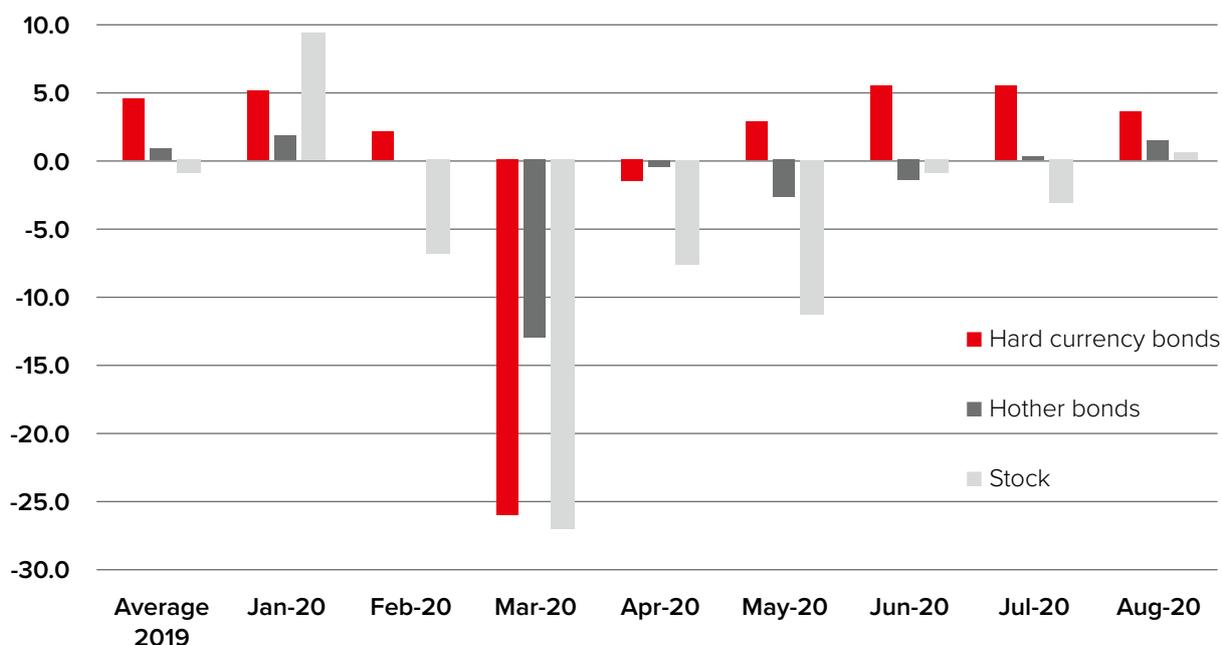
Source: International Monetary Fund

In the case of middle-income countries, some do require significant debt restructuring. The cases of Argentina and Ecuador are important in this regard. Both reached agreements with their creditors in early August. The explicit IMF support for these restructurings was, no doubt, positive in those renegotiations. There are proposals for fairly general debt standstill for emerging and developing economies (see in particular UNCTAD and Reinhart and Rogoff, among the works cited above), but the cases are too diverse to follow a uniform pattern. An interesting proposal is also that of Bolton et al. (2020), who suggest creating a central financial credit facility in the World Bank or regional development banks that would facilitate deferral of amortizations and the use of the interest to finance the health emergency, but with the obligation of the debtor countries to pay the debts in the future.

One of the interesting developments during the recent crisis has been the rapid recovery of the debt market for

emerging economies that took place since mid-April, with a short lag after the recovery of developed countries' financial markets. Figure 1 shows that there was a massive capital flight at the start of the crisis, particularly in March, but the issue of hard currency bonds for emerging economies has been positive since May. In historical terms the rapid recovery of these markets is unprecedented. In the case of Latin America, for example, it took eight years to have access to bond markets after the debt crisis of the 1980s, about five years after the 1997 East Asian crisis, and 13 months after the collapse of the investment bank Lehman Brothers in 2008, but only two months during the current crisis. The evolution of bond yields (not shown here) also shows a significant increase in the early phase of the crisis, peaking in the third week of March but with a strong reduction since May, which has allowed countries with access to the market to issue bonds with very good conditions. Of course, this positive evolution has not benefited all emerging and developing countries.

**FIGURE 1 - CAPITAL FLOWS TOWARDS EMERGING ECONOMIES
(BILLION DOLLARS)**



Source: JPMorgan

It should be added that over and beyond the short-term actions, it is essential that an institutional framework be created to renegotiate sovereign debts. This subject has been on the agenda for the last two decades. Some progress has been made in improving the collective action clauses of the debt contracts to facilitate possible renegotiations with private creditors –an innovation that played a positive role in the recent ones by Argentina and Uruguay—, and the definition of principles and clauses that allow individual renegotiation of a country with its creditors, but with no specific institutional framework in place¹².

A final action line that has been suggested by several analysts is a coordinated regulation of capital flows to curb, in particular, excessive inflows of portfolio capital of emerging economies during booms, but also possibly the flight of that capital during crises¹³. This action would

be in line with the “institutional view” on capital flows approved by the IMF in 2012 (IMF, 2012). Similarly, it has been suggested that credit rating agencies should suspend their downgrading of ratings (or outlooks) during the crisis, as these feed the flight of capital. Neither the G-20 nor the IMF have expressed views on these issues.

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¹² See a review of the corresponding debate in Ocampo (2017), Chapter 5.

¹³ See, on this subject and that of rating agencies, Gallagher et al. (2020).

IV. COOPERATION FROM THE MULTILATERAL DEVELOPMENT BANKS

One of the most important financial instruments that the international community has is the multilateral development banks (MDBs). In the case of emerging and developing countries, they include the World Bank Group, as well as several regional banks (the African, the Asian, the Inter-American, and the European Bank for Reconstruction and Development), as well as interregional banks (the Islamic Development Bank being the most important) and subregional institutions in several continents. Europe also counts with its MDB, in fact the largest of the world: the European Investment Bank. Moreover, there is a growing role for the two new MDBs: the New Development Bank and the Asian Infrastructure Investment Bank.

During the North Atlantic financial crisis, MDBs played a crucial counter-cyclical role, offsetting, at least partially, the contraction of private international financing. They also provided commercial credit, which was used by a large number of private banks and help to support the recovery of international trade. The European Investment Bank played, in turn, an essential role in support of European countries during this crisis, and was also used as an instrument of the Juncker Plan launched in 2014, to a large extent to respond to the Eurozone crisis in the previous years. The counter-cyclical role that these institutions can fulfill had been generally ignored but was finally recognized during these crises by the economic authorities and the MDBs themselves. This lack of recognition had ignored the lessons of the past, which suggested that, in addition to the provision of liquidity by monetary institutions in times of crisis, it is equally important to provide official long-term financing to support public spending and public and private investment –the role precisely fulfilled by MDBs.

As Table 3 indicates, the World Bank Group and the major regional development banks sharply increased their credit commitments to emerging and developing countries during the North Atlantic crisis: by 117 and 57% between 2007 and 2010, respectively. Their disbursements grew at a somewhat slower rate, despite the measures adopted to accelerate them, which included loan advances and fast track loans. Curiously, however, the response of the World Bank Group was more aggressive in its lending to middle-income countries than to low-income countries, as reflected in the more significant growth in loans by the International Bank for Reconstruction and Development

(IBRD) than those of the International Development Association (IDA). This was also true for the multilateral banks as a whole (Ocampo et al., 2012). The European Investment Bank also responded aggressively, with a peak in 2009 that doubled its lending prior to the crisis.

The limits on their capital initially constrained the response of the banks. For this reason, as indicated in section II, in the Plan approved at its meeting in London in April 2009, the G-20 agreed to support the capitalization of the MDBs. That of the Asian and African Development Banks was rapid and massive: a 200% increase in that year in both cases. That of the Inter-American Bank, approved in March 2010, was less ambitious, gradual, and less than hoped for by the Latin American and Caribbean countries: some 70%. That of the World Bank took place in April 2010, was even more modest, and formed part of a set of reforms aimed at increasing the participation of emerging and developing countries in the capital of that institution. The capital of the European Investment Bank was also capitalized during the North Atlantic financial crisis and again in 2012. However, the expansion of its lending also depended on using its leverage and complex financial products –and excessively so, according to Griffith-Jones and Naqvi (2020).

It is interesting to note that, after the massive increase in financing during the crisis, the World Bank Group was much less dynamic in the 2010s (see Table 3 again). This was also true of the European Investment Bank, which has had very variable levels of lending. In contrast, the regional development banks serving emerging and developing countries continued to grow, and by the late 2010s were lending together more than the World Bank Group. The most dynamic was the Asian Development Bank, but the European Bank for Reconstruction and Development and the African Development Bank also experienced significant growth. The institution that lagged was the Inter-American Development Bank. However, the Andean Development Corporation (CAF, according to its Spanish acronym) became a true regional development bank, changed its name to Development Bank of Latin America in 2010, and has been in recent years as important as the Inter-American Development Bank in terms of new lending. Finally, the New Development Bank and the Asian Infrastructure Investment Bank have started to play a dynamic role in multilateral financing (Humphrey, 2020).

IV. COOPERATION FROM THE MULTILATERAL DEVELOPMENT BANKS

TABLE 3: LOAN COMMITMENTS OF MULTILATERAL DEVELOPMENT BANKS (MILLION US DOLLARS)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
International Bank for Reconstruction and Development (IBRD)	10 919	10 487	11 452	11 231	11 045	13 611	14 135	12 829	13 468	32 911
International Development Association (IDA)	13 332	6 764	8 068	7 282	9 035	8 696	9 506	11 867	11 235	13 995
International Finance Corporation (IFC)	2 379	2 732	2 957	3 856	4 753	5 373	6 703	8 220	11 399	10 547
Subtotal World Bank Group	26 630	19 983	22 477	22 369	24 833	27 680	30 344	32 915	36 101	57 453
Inter-American Development Bank (IADB)	4 969	7 411	4 143	6 232	5 468	6 738	5 774	8 812	11 085	15 278
African Development Bank (AfDB)	3 368	2 979	2 772	2 625	4 328	3 278	3 907	4 895	5 435	12 643
Asian Development Bank (AsDB)	5 583	5 339	5 658	6 085	5 039	5 761	7 264	9 516	10 124	13 230
European Bank for Reconstruction and Development (EBRD)	2 465	3 312	3 676	4 180	5 093	5 346	6 149	7 664	7 464	10 987
Subtotal Regional Banks	16 385	19 041	16 249	19 121	19 928	21 123	23 094	30 887	34 108	52 137
Development Bank of Latin America (CAF)	2 323	3 196	3 291	3 304	3 504	4 746	5 521	6 607	7 947	9 170
Asian Infrastructure Investment Bank (AIIB)	-	-	-	-	-	-	-	-	-	-
New Development Bank (NewDB)	-	-	-	-	-	-	-	-	-	-
European Investment Bank (EIB)	37 665	37 282	50 183	52 674	56 767	63 187	67 247	77 343	87 159	144 418
TOTAL	83 003	79 502	92 200	97 468	105 032	116 735	126 206	147 753	165 315	263 179

TABLE 3: LOAN COMMITMENTS OF MULTILATERAL DEVELOPMENT BANKS (MILLION US DOLLARS)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
International Bank for Reconstruction and Development (IBRD)	44 197	26 737	20 582	15 249	18 604	23 528	29 729	22 611	23 002	23 191
International Development Association (IDA)	14 550	16 269	14 753	16 298	22 239	18 966	16 171	19 513	24 010	21 932
International Finance Corporation (IFC)	12 664	12 186	15 462	18 349	17 261	10 539	11 117	11 854	11 629	8 920
Subtotal World Bank Group	71 411	55 192	50 797	49 896	58 104	53 033	57 017	53 978	58 641	54 043
Inter-American Development Bank (IADB)	12 464	10 671	11 179	13 811	13 629	11 074	11 325	13 350	14 756	13 268
African Development Bank (AfDB)	6 314	8 782	6 538	6 754	7 316	8 778	10 802	8 824	10 123	10 095
Asian Development Bank (ADB)	17 936	20 374	20 925	20 357	22 841	26 540	25 466	31 813	35 464	33 743
European Bank for Reconstruction and Development (EBRD)	11 924	12 659	11 463	11 287	11 772	10 406	10 397	10 928	11 280	15 956
Subtotal Regional Banks	48 638	52 486	50 105	52 209	55 558	56 798	57 990	64 915	71 623	73 062
Development Bank of Latin America (CAF)	10 533	10 066	9 275	11 876	11 622	11 537	12 412	12 259	13 663	13 800
Asian Infrastructure Investment Bank (AIIB)	-	-	-	-	-	-	1 694	2 502	3 304	4 576
New Development Bank (NewDB)	-	-	-	-	-	-	1 568	1 851	8 078	7 192
European Investment Bank (EIB)	110 758	68 972	80 082	106 250	119 314	104 306	82 955	94 638	74 013	65 775
TOTAL	241 340	186 716	190 258	220 231	244 599	225 674	213 636	230 142	229 323	218 449

Source: Information from each development bank.

IV. COOPERATION FROM THE MULTILATERAL DEVELOPMENT BANKS

Two important lessons of the response of the MDBs to the North Atlantic financial crisis were, therefore, the need to have ex-ante mechanisms for rapid disbursements during crises and for greater automaticity in the repositioning of their capital. The first of these lessons has led to a myriad of decisions taken by the banks during the COVID-19 crisis to support member countries: special lines to address the crisis (although, in many cases, with modest resources); increases in the scale of credit programs, within their capital restrictions, streamlining credit approval processes; and, in several cases, the possibility of reassigning credits already approved to the needs of the emergency.

In contrast, the second lesson has led to no significant changes. As pointed out in section II, a major difference between the G-20 decisions in 2009 and those announced in 2020 relates to the lack of reference during the current crisis on capitalizing the MDBs. Two of the institutions analyzed were capitalized in recent years, and count with the resources to expand their financing during the crisis. A capitalization of the World Bank was approved in 2018, and included an increase in paid-up capital of the International Bank for Reconstruction and Development (IBRD) of \$7.5 billion (equivalent to about a 20% increase of its net wealth) and of the International Finance Corporation (IFC) of \$5.5 billion, an institution that has also grown in its capital through the reinvestment of profits. The 19th replenishment of the International Development Association (IDA) was also approved in December 2019, representing a 3% real increase in relation to the previous one. In turn, the largest capitalization of the African Development Bank was approved in October 2019, increasing the capital base of the institution from \$93 to \$208 billion.

The World Bank presented to the Development Committee in April 2020 a program to respond to the COVID-19 crisis based on three pillars: (i) protecting the poorest and most vulnerable households; (ii) supporting companies and saving jobs; and (iii) helping developing countries implement emergency health programs and strengthen economic resilience (Malpass, 2020b). Two crucial elements of the packages announced are the significant weight of resources destined for low-income

countries –thus correcting one of the problems of the World Bank’s program during the crisis a decade ago– and the emphasis on actions aimed at the private sector through the IFC.

The immediate support package approved in mid-March made \$14 billion of new financing available to countries: \$2.7 billion from IBRD, \$1.3 billion from IDA, and \$8 billion from IFC (including \$2 billion of reassigned resources), and the prioritization of \$2 billion from the Group’s existing portfolio. Beyond the emergency program, the Bank approved, at the end of March, a package of \$160 billion for the next 15 months. This amount means a substantial increase over the annual average of \$64 billion approved in 2009-10, at the peak of the North Atlantic crisis. This more extensive package includes emergency credits, which can be activated or added to existing projects, and the accelerated restructuring of countries’ projects.

It should be highlighted that in March, the President of the World Bank expressed to the G-20 the need to link recovery policy to structural reforms: “Countries will need to implement structural reforms to help shorten the time to recovery and create confidence that the recovery can be strong. For those countries that have excessive regulations, subsidies, licensing regimes, trade protection or litigiousness as obstacles, we will work with them to foster markets, choice and faster growth prospects during the recovery” (Malpass, 2020a). This association is unfortunate, given the recent rejection by many emerging and developing countries of this view, and the minimal relationship that it has with the economic emergency, where the universal pattern has been increased state intervention.

The increase in financing from the World Bank Group, in particular for low-income countries, has been dynamic: IDA’s financing increased 94% during the first semester of 2020 relative to the same period in 2019, and IBRD by 21%; despite the strong announcements regarding IFC, its financing only increased by 1%. Despite its capital constraints, the Inter-American Development Bank also increased its financing by 34% relative to last year’s first semester. Unfortunately, there is no public information of a similar character for the other MDBs.

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A myriad of decisions taken by the banks during the COVID-19 crisis to support member countries: special lines to address the crisis (although, in many cases, with modest resources); increases in the scale of credit programs, within their capital restrictions, streamlining credit approval processes; and, in several cases, the possibility of reassigning credits already approved to the needs of the emergency.

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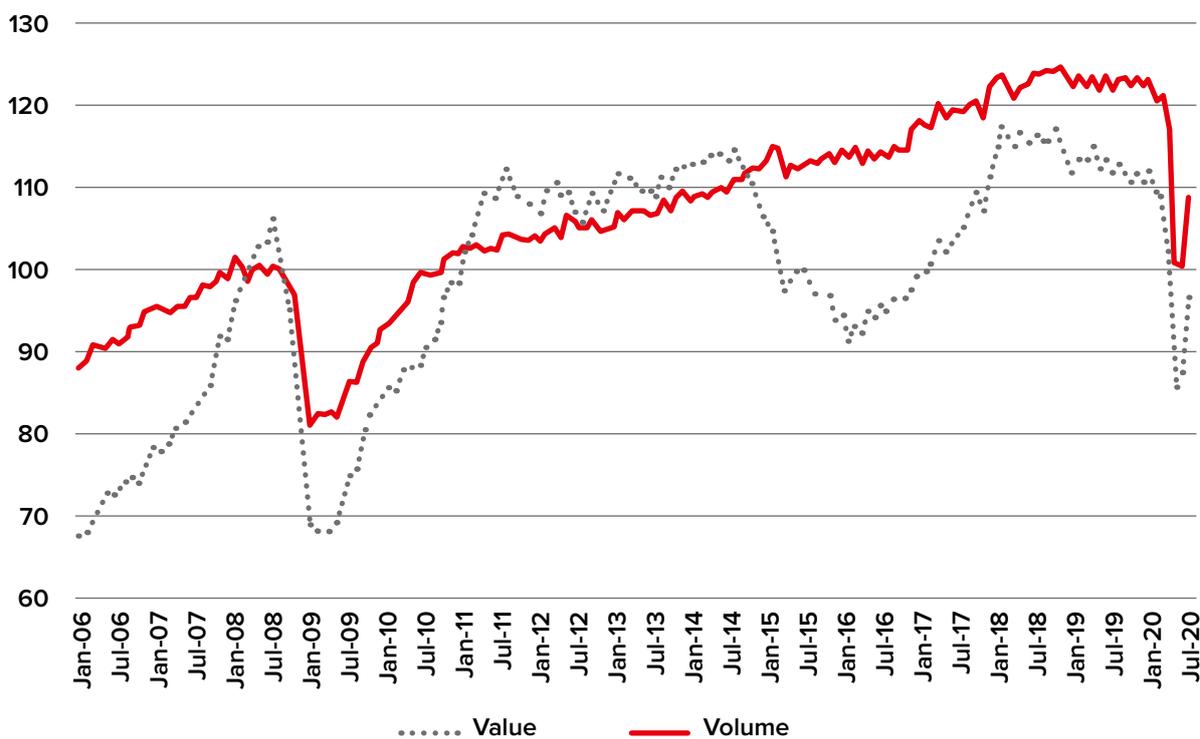
V. THE CRISIS OF INTERNATIONAL TRADE

Despite the decision adopted during the an North Atlantic crisis not to use protectionism to respond to the crisis, and the rapid Chinese-led recovery that took place, the dynamics of world trade was significantly affected. The boom that took place since the mid-1980s, that had led to annual average growth of 7.3% in the world's trade volumen in 1986-2007, was followed by a growth of only 3.1% in 2007-2019, the slowest of the post-World War II period.¹⁴

Figure 2 details the corresponding dynamics, according to the regular estimates by the former Dutch planning office (CPB Netherlands Bureau). There was a sharp fall during the most acute phase of the crisis, but also a rapid recovery, which happened in such a way

that trade recovered to pre-crisis levels by the end of 2010. The coordinated action of the G-20 to avoid protectionist measures during the crisis was important in this regard. However, recovery did not result in a new period of rapid expansion: based on the background data for Figure 2, it can be estimated that the pace of real annual growth of trade was 2.0% a year in 2007-2019 and 2.2% 2011-2019 –lower than IMF estimates mentioned in the previous paragraph. Partly as a result of the U.S. restrictions mentioned below, but also of the expectation of a slowdown in world economic growth, trade started to contract in late 2019. Also, due to the fall in commodity prices, and particularly of oil, the value of global trade in 2019 was not much higher than in 2011 or even than in 2007.

FIGURE 2 - WORLD EXPORTS (1st SEMESTER 2008=100)



Source: Estimates based on data from the CPB Netherlands Bureau.

¹⁴ These growth rates are estimated from information from the United Nations for the first period and from the IMF since 2007.

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There are great uncertainties in trade policy that preceded the COVID-19 crisis, which will also influence trade during the recovery.

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There are great uncertainties in trade policy that preceded the COVID-19 crisis, which will also influence trade during the recovery. From the standpoint of the multilateral system, the worst threat is the suspension of the WTO Appellate Body on 11 December 2019, due to the lack of appointment of new members. The roots of this problem are the U.S. objections to the decisions of this Body, especially its allegation that decisions are used as “precedents”—an accusation that is considered unfounded even by U.S. experts.¹⁵ Other objections relate to the views of this Body on the use of contingent protections, particularly of anti-dumping measures, a mechanism that the U.S. actively uses. The opposition to the Appellate Body has been strong even though the U.S. has also benefited from its decisions—for example, those in favor of the U.S. on European subsidies of Airbus.

Negotiations on the WTO dispute settlement are ongoing, mixed now with the process leading to a new head of the Organization. Temporary mechanisms have been suggested, but the U.S. has been inflexible in its rejection of proposals presented by European and other countries in recent years. The world, therefore, risks the possible loss of the best instrument of dispute settlement in the multilateral system, and a crucial one for guaranteeing that countries abide by WTO rules. It is a mechanism that had been used by a large number of both developed and developing countries.

Beyond the WTO crisis, the other complex problem facing international trade is the unilateral use of trade measures by the U.S., in some cases to achieve objectives not directly related to trading (as happened with Mexico to curb irregular immigration) or seeking geopolitical goals (sanctions for companies trading with Venezuela and Iran). The most critical case is, however, the trade war with

China, which seeks objectives that are partly legitimate (curbing possible violations to intellectual property rules by China), but also others that have no apparent economic rationale (e.g., reducing the bilateral trade deficit) or lack a valid justification (e.g., the claim that China manipulates its currency, a view that is not supported by IMF analysis). Although a temporary truce was reached in December 2019, it remains to be seen whether it is a step to a final solution. Furthermore, some of the elements of this agreement are contrary to international trade rules, notably the insistence of the U.S. that China commits to the purchase of U.S. agricultural goods with no regard for the market mechanisms.

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The COVID-19 crisis generated a major contraction of international trade associated in particular to the disruptions in value chains, which have been the primary source of growth in international trade for several decades.

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The trade war contributed to the slowdown in world trade, and is one of the factors that has generated the uncertainty surrounding the global economy. The tensions between these two powers can also generate other effects, especially on the future of information technologies, due to sanctions against the Chinese company Huawei, and the U.S. pressure on other countries (including European ones) to apply similar sanctions against this company. This could lead to the development of two parallel digital technology systems—a Western and a Chinese one—that do not interact with each other. It is worth noting that the trade war has also generated multiple and inefficient trade deviations. Some of these deviations have had positive effects on some developing countries

¹⁵ See an excellent critical analysis of U.S. positions on the Appellate Body by Bacchus and Lester (2019). The first of these authors is an American citizen who was one of the founders and chaired the Appellate Body.



V. THE CRISIS OF INTERNATIONAL TRADE

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Several outstanding issues on the WTO agenda that need to be addressed, particularly those relating to the effects of new technologies on trade, and the relationship between the trade and environmental agendas.

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(e.g., export of industrial products from Mexico to the U.S., and soybean and corn exports from Argentina and Brazil to China, among others), but also negative impacts (such as the likely dumping of some Chinese manufacturing products in countries that have no restrictions on imports from the Asian giant).

On top of these problems, the COVID-19 crisis generated a major contraction of international trade associated in particular to the disruptions in value chains, which have been the primary source of growth in international trade for several decades. The crisis has also generated a fall in fixed capital investment, which is quite intensive in imports throughout the world, as well as a falling demand for manufactures in broader terms, problems in industrial supplies during the lockdowns adopted in different locations, and additional problems associated with disruptions in international transportation and customs offices. In the service area, airlines and tourism have been dramatically affected.

WTO estimates that the volume of world trade will decline in 2020 between 13% in the basic scenario, and 32% in the most pessimistic one (World Trade Organization, 2020). The disruption in value chains may be permanent, and thus the recovery may be slower and weaker than it was after the North Atlantic financial crisis.¹⁶ In turn, some commodity prices have collapsed, notably energy products (especially oil), and to a lesser extent base metals, with agricultural goods experiencing a mixed pattern (World Bank, 2020). This means that, in value terms, the decline in global trade will be much stronger.

Figure 2 indicates that the contraction of world trade was very strong in March and, particularly, in April and May, but there was a recovery in June. In volume terms, the strongest contraction was reached in May, -18.7% vs. the same month in 2019, and in value terms in April, -23.6%. In March-June, the volume of world trade contracted by 13.0%, similar to

the basic scenario of WTO. This data refer to goods and do not include the collapse of some services, notably air traffic and tourism. Other services, mainly associated with information technologies and financial activities, have experienced growth, particularly the first of them.

It may be worth emphasizing that there have also been positive developments in international trade in recent years. They include the Trans-Pacific Partnership, which was launched despite the U.S. withdrawing from the agreement. To this we could add the agreement, in November 2019, among fifteen Asian countries to constitute the Regional Comprehensive Economic Partnership, which promises to be the largest free trade area in the world. The signing of the long-negotiated Strategic Partnership Agreement between MERCOSUR and the European Union in June 2019 should be added to this list. However, this agreement is still pending ratification and faces the tense controversies between Brazil and some European countries over Brazil's lack of protection of the Amazon forests.

The defense of multilateralism in trade—particularly of WTO and its dispute settlement mechanism—and the strong rejection of the use of unilateral trade measures must clearly be part of the global development agenda in the post-COVID era. As part of that agenda, it is also desirable that there should be exceptions to the intellectual property rights associated with the COVID-19 vaccines, in a similar way to those adopted in 2001 to protect public health, and that allowed for the use of compulsory licenses and parallel imports of medications for HIV/AIDS and other diseases. There are, finally, several outstanding issues on the WTO agenda that need to be addressed, particularly those relating to the effects of new technologies on trade, and the relationship between the trade and environmental agendas, as well as old issues, among which is the relationship between multilateral rules and those established by the plethora of bilateral and plurilateral free trade agreements.

¹⁶ See an interesting analysis of the future of value chains by the Economist Intelligence Unit (2020), which argues that the main effect is that they would become shorter.

VI. INTERNATIONAL TAX COOPERATION

One of the central topics of the global economic agenda in recent years has been the strengthening of international tax cooperation. The indignation around the world over the low or zero taxes paid by some of the largest multinational companies led to debates in several parliaments around the world, and to strong criticism in the media and by non-governmental organizations. In the face of this outrage, and the rising fiscal needs generated by the North Atlantic crisis, in 2012, the G-20 entrusted the OECD with the responsibility of designing alternatives aimed at ending these abuses. To facilitate the participation of developing countries in this process, the OECD created the Inclusive Framework on BEPS, in which close to 140 countries participate.

The way tax avoidance and evasion by major multinationals takes place is quite simple: they use their network of subsidiaries, each one of which is considered an independent company for tax purposes, to declare profits in jurisdictions where taxes are low or nil, even if the company does not exert its main activities there. To this end, they use transfer pricing: the parent company sets transaction prices among its subsidiaries to ensure that profits are recorded in low-tax countries, or even in tax havens. Although the rules on transfer pricing indicate that the prices recorded in those transactions should be market-based, this is impossible in practice, as many transactions involve intangible assets, in particular those related to intellectual property rights and trademarks. On top of this, the desire to attract investment from multinationals has generated tax competition among countries, through the reduction of tax rates and granting of other benefits to attract investment. It should be added that with the accelerated digitization of economies has implied that the quantities diverted have steadily increased.¹⁷

As a result, an estimated 40% of multinationals' profits are diverted to low- or zero-tax countries or locations. The IMF calculates that OECD countries lose more than \$400 billion of tax revenues from profit shifting, and non-OECD countries more than \$200 billion –but a larger proportion relative to GDP (Crivelli et al, 2015). These estimates are larger than those of the OECD. Added to this is the diversion of taxes on high personal

incomes to tax havens. The adverse effects of all these practices on income inequality are monumental, both domestically and internationally.

In-depth solutions should include three elements, as proposed by the Independent Commission for the Reform of International Corporate Taxation (ICRICT).¹⁸ The first is consolidated taxation of multinationals, which would then be considered as a single firm for tax purposes. This would imply that their revenues would be consolidated, and the use of transfer pricing would be eliminated. Global profits and

associated taxes would be allocated geographically according to objective and non-manipulative factors such as sales, employment, natural resources use, and digital users. The second would be the introduction of a global minimum effective corporate income tax rate, which could be 25%, which is the current average nominal rate of OECD countries. Domestic rates, as well as those applicable to personal income, would be subject to national legislation. The third element would be to create a single global asset registry, for both physical and financial assets, with information on individuals who are final beneficiaries. It could be built based on real estate and financial property registries already existing in many countries.

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The desire to attract investment from multinationals has generated tax competition among countries, through the reduction of tax rates and granting of other benefits to attract investment.

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¹⁷ For a detailed analysis of these issues, see IMF (2015b and 2019), FitzGerald and Siu (2019), Ocampo and Faccio (2019), Saez and Zucman (2019), and the work of the Independent Commission for the Reform of International Taxation (ICRICT) (<https://www.icrict.com/resources/icrict-documents>).

¹⁸ <https://www.icrict.com/resources/icrict-documents>



VI. INTERNATIONAL TAX COOPERATION

The OECD proposals to address these problems are framed in the BEPS project. Its first results, announced in 2015 and 2016, were the improvement in the exchange of information among tax authorities and the obligation of large multinationals to submit country-by-country reports of where they are making their profits and paying taxes. Unfortunately, this obligation only applies to very large multinationals, and the reports are not available today to many developing countries. They are also not publicly available, depriving civil society and the media of an essential transparency tool.

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The challenges posed by the digital economy are the subject of ongoing discussions based on the OECD proposals presented to the Inclusive Framework at the beginning of 2019.

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The second initial outcome of the BEPS process was the improvement in cross-border tax rules through the Multilateral Convention to Implement Tax Treaty Related Means to Prevent Base Erosion and Profit Shifting, which effectively amends existing bilateral treaties.¹⁹ They introduced two crucial rules. The first is a clause for abuses to the treaty, which allows tax authorities to assess the economic substance of a transaction and the revenue generated by it, and to challenge the characterization made of it by the multinational if the relevant tax authority considers that the transaction’s attribution to a particular company was done to avoid paying taxes. The second is the revision of the characterization of an establishment

as “permanent,” which expands the authorities’ capacity to tax economic activities that take place within their borders. This represents a modest but welcome step to shift the taxing power to the countries where the economic activities take place. Unfortunately, the U.S. did not sign this Convention.

On the other hand, the challenges posed by the digital economy are the subject of ongoing discussions based on the OECD proposals presented to the Inclusive Framework at the beginning of 2019.²⁰ It is worth underscoring that, in the absence of an international consensus on the tax effects of the digital economy, several European countries (e.g., Austria, France, Italy, the United Kingdom) have introduced digital services taxes, which are turnover-based taxes. Others, such as Mexico, are considering forcing platforms such as Uber or Netflix to pay value-added taxes for the services provided in their territory. Although these are important initiatives, digital firms should not be the sole target of the reform, given that more and more companies are using digital technologies as part of their ordinary business practices.

The OECD proposal for the ongoing negotiations is based on two pillars. The first is to clearly establish, for tax purposes, what percentage of profits of firms—and, particularly, of multinationals—should be allocated to the jurisdictions where the multinationals’ customers are located. However, the proposal on this issue is not sufficiently ambitious or equitable, as the profits that would be redistributed internationally would be limited to a “residual” part, which the firm would differentiate from ordinary of “routine” profits. This differentiation is inappropriate because the profits of multinationals are derived from their global activities. Even worse, this principle would only apply to very large multinationals which operate automated digital services (e.g., online search engines, online media platforms) and consumer-facing businesses, and their allocation of these benefits to individual countries would depend solely on the volume of sales, excluding employment or other factors that would favor developing countries. The second pillar is a minimum effective income tax rate on companies worldwide, but without a specific proposal on the table.

One of the interesting elements of the recent debate has been the active participation of the Intergovernmental Group of Twenty-Four on International Monetary Affairs (G-24), the main grouping of developing countries in

¹⁹ OECD (2016). This convention was opened for signature on 24 November 2016 and became effective on 1 July 2018.

²⁰ OECD/G-20 BEPS Project (2019).

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An estimated 40% of multinationals’ profits are diverted to low- or zero-tax countries or locations.

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discussions at the IMF and the World Bank. This debate has now been expanded to tax negotiations. These countries’ points of view have been linked to the first pillar. They have proposed a system that ensures that companies undertaking digital activities have an economic (and tax) presence in an individual country, despite not having a physical presence, and that the system adopted be equitable and simple (for example, by estimating profit margins on the value of transactions performed, according to the type of transaction. They have also opposed the proposal to create a mandatory arbitration system for tax disputes, and propose that the focus of the new system should be on dispute prevention, maintaining national competencies when disputes occur. However, the G-24 has no proposals on the second pillar, and objects that adopting an international single rate would reduce the capacity of developing countries to provide tax benefits in order to encourage investment.²¹

The likelihood of the negotiations within the Inclusive Framework reaching a political agreement remains unclear. The U.S. has made clear its concerns with the proposal under Pillar I, which it perceives targets in a discriminatory manner towards U.S. digital multinationals (e.g. Apple, Facebook, Amazon, Google, Netflix).²² Because the slowness of the negotiations and the position of the U.S., many countries are moving unilaterally. In addition to the digital services taxes in European countries, Nigeria has recently introduced new legislation to tax automated digital services by introducing a significant economic presence definition in its legislation, and the European Commission has made clear that it “stands ready to act if no global agreement is reached.”

Finally, it is worth highlighting that the governance structure in this field is also worth further discussion. Unfortunately, despite their name, developing countries do not play on equal terms in the “Inclusive Framework,” not just because major developed countries have more human, political, and financial resources to make their views prevail, but also because the secretariat of the OECD is made up primarily of experts from these countries. Therefore, it would be desirable to revert to the proposal presented by the G-77 at the 2015 Addis Ababa Conference on Financing for Development: to give the leadership on this issue to the United Nations through the Committee of Experts on International Cooperation in Tax Matters, which would then be transformed into an intergovernmental multilateral body and backed with strong technical support.

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Developing countries do not play on equal terms in the “Inclusive Framework,” not just because major developed countries have more human, political, and financial resources to make their views prevail, but also because the secretariat of the OECD is made up primarily of experts from these countries.

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²¹ The ability of these incentives to generate more real investment is debatable, according to IMF research (IMF, 2015a).

²² <https://www.nytimes.com/2020/06/17/us/politics/us-digital-tax-talks.html>

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WEAK INTERNATIONAL ECONOMIC COOPERATION

IN RESPONSE TO THE COVID-19 CRISIS

The COVID-19 hit the world in the midst of a process of weakening multilateralism. In addition, the world economy has been hit by the deepest and most synchronized recession in world history —a 6.1% reduction of world GDP at market exchange rates according to the most recent IMF projections.

This paper analyzes several of the dimensions of weakening multilateralism in the area of economic cooperation during the COVID-19 crisis. The author argues that international cooperation during the COVID-19 crisis has been weaker than during the 2008-09 North

Atlantic Financial crisis. This contrast with the more aggressive domestic economic policies adopted by the developed countries.

In terms of financial cooperation, the emergency financing facilities of the International Monetary Fund have that been made available to a large number of countries and the capacity of the World Bank to increase its lending stand out as positive steps, but the U.S. veto to an issue of IMF's Special Drawing Rights and the lack of a call by the G-20 to capitalize multilateral development banks stand out as negative features. The crisis of the World Trade Organization and the tensions that international trade was facing prior to the crisis stand out as the most troublesome features of international economic cooperation.

Finally, the paper argues that some advance has been made in the negotiations of international tax cooperation, but it remains to be seen what the final outcome of those negotiations would be.

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