GLOBAL 05.05.2020 | Jochen Steinhilber & Bettina Luise Rürup & Elisabeth Bollrich

Global Quarantine X

International cooperation is under pressure in the corona pandemic. The G20, UN and IMF are bucking the trend

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G20

'Whatever it takes.' These three decisive words from Mario Draghi during the European debt crisis of 2012 were echoed by G20 members at their meeting at the end of March, where they promised to do everything necessary to overcome the pandemic and its negative economic consequences. The problem is that the 20 strongest economies in the world have not yet brought out their heaviest artillery. So far, concrete commitments as well as political leadership have largely been lacking. In the global financial crisis of 2008/2009, cooperation within the G20 paid off. At the time, the group succeeded in using a coordinated policy to lay a solid foundation under the teetering global economy. Ten years later, characterised by mistrust between states, power politics at the expense of international organisations and trade and technology conflicts, relations within the G20 no longer seem to be flexible enough to provide a strong, united response, even in times of greatest need.

The €5 trillion that the G20 announced as its intended investment in the global economy have already been reached through the national measures of individual countries. In mid-April, the amount totalled USD 5.4 trillion, about 8 per cent of the G20's GDP, with the majority accounted for by the established industrialised countries. In contrast to the financial crisis, so far China has shown marked restraint; meanwhile, the other emerging countries have very little scope for fiscal measures due to the massive flight of capital since the beginning of the crisis and the level of indebtedness. This is also the crux of the conflict within the G20: how should the emerging and developing countries that do not have their own resources be helped to overcome the crisis?

In mid-April, under pressure from the IMF, the G20 decided to grant 77 countries a debt moratorium until the end of 2020 and to freeze interest and principal payments. This is certainly a success, as it leaves the

urgently needed money in the countries over the short term. In addition, for the first time, states such as China and India that do not belong to the Paris Club of creditor countries have also approved a moratorium. However, if there is no comprehensive debt cancellation, the debt crisis is not resolved, but only postponed. The issue of whether the IMF may reissue its reserve currency (i.e. its special drawing rights) in order to efficiently meet the liquidity shortages in some countries is particularly controversial. So far, the United States above all has been opposed to the project because they fear that Tehran and Beijing could benefit from it.

In the immediate health policy crisis response, we also see a strong contrast to the Ebola crisis in 2014, for example, when the G20 reacted together to the outbreak in West Africa. The G20 Action Plan on Covid-19 provides that international organisations should support the members, both in order to achieve health policy goals and to boost the economy again. However, the United States blocked a separate communiqué from the G20 health ministers that committed to bolstering WHO support. Here too, the reason lies in the growing rivalries between China and the United States, which accuses the World Health Organization of having excessively close relations with Beijing.

The G20 was created for the purpose of offering a robust multilateral response in just such times of crisis. At the moment, however, the forum is less than the sum of its parts. It is more like the G-Zero world coined by Ian Bremmer, in which no one is able or willing to take the lead. That will not change substantially in a few weeks and during the run-up to the US elections. Nevertheless, Germany should send out a clear signal in the EU Council Presidency and European countries like Italy, which will take over the chair of the G20 in December, that they will defend what remains of multilateralism in the G20 and protect the organisations that need it to cope with the aftermath of the pandemic.

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The United Nations

The corona pandemic shows once again how much an interconnected world needs global crisis management. The United Nations has the potential to achieve this. Over the past 75 years, it has become a site where global norms are set, and it has been the driving force behind important ideas and initiatives. However, its capacities for operationalisation are limited, while the expectations of the organisation are high. To put this in perspective, the UN core budget roughly corresponds to that of the city of Stuttgart.

A major shortcoming in the 75 years of the United Nations – the lack of a global public having an awareness of the interconnectedness of the world – is particularly evident right now. Hardly any attention is paid to its actions; for nearly all people, the local and national levels take centre stage. The UN in New York can do little to change this – this would be the task of the member states, their governments and parties, civil society, the media and the public.

Right now, the United Nations in New York is also directly affected by the shutdown. The 'beehive' in New York is deserted and only meets virtually. In its programme 'A UN framework for the immediate socio-economic response to Covid-19', which was presented on 23 April, the United Nations declared the pandemic a global emergency. It identified five streams of work to combat the pandemic and its aftermath. In order to do this, a significant part of the funds for the implementation of its sustainable development goals are to be made available.

On 20 April, the General Assembly unanimously adopted a resolution to ensure cooperation regarding access to vaccines, medical equipment, tests and PPE, and declared that these constitute global public goods. On 23 March, Secretary-General António Guterres urged the world to observe a global ceasefire during the pandemic. Two Covid-19 funds to support humanitarian aid and socio-economic reconstruction have also been launched. On 30 April, the UN Security Council will deal with the question of whether Covid-19 can be classified as a threat to peace and security, therefore falling within the jurisdiction of the Security Council.

Other UN organisations and programmes have developed empirical analyses of the consequences of Covid-19. They once again make it clear that a pandemic is not a 'leveller', but that existing inequalities within and between nations are enormously amplified, if no specific countermeasures are taken. Secretary-General Guterres urges that all consolidation measures strengthen human rights and find integrated answers at all levels of the crisis – health, economy/finance, and climate. The 2030 Agenda for Sustainable Development provides the normative framework for this.

As a member organisation and diplomatic platform, the United Nations can only be as strong as the political will of its member states. Even if the UN Charter begins with 'We the peoples', it is the member states that form the basis of this multilateral organisation and can strengthen or weaken it. The number of states that do not recognise the connection between national patriotism and international solidarity in the 21st century has been growing for several years.

In times of strong geopolitical and economic tensions, it is not easy to switch to the mode of pragmatic cooperation. A coordinated approach requires political will at the global level – here too, the nation states are asked to consider their own long-term interest. Important players in this area include the Alliance for Multilateralism, founded in 2019, as well as associations of progressive civil society forces such as the Progressive Alliance. In order to increase the effectiveness of the UN as the only truly global and universal actor, active cooperation with regional and plurilateral organisations and actors (such as the EU, AU, ASEAN and the G20) is also important. A better integration between the UN in New York and international financial institutions such as the IMF and the World Bank in Washington would strengthen both organisations and increase the effectiveness of the post-pandemic programmes.

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IMF

Last year, the IMF expressed concern about warning signs of a possible collapse of the financial markets. Its focus was on the dizzying accumulation of corporate debt to take on financial risks. Moreover, the IMF warned, the risk existed not only in the private but also in the public sector. Public debt ratios were at an historic high. The dependency of the poorest countries on foreign loans increased the risk of debt emergencies. It was clear at the time that the global financial system was highly vulnerable to shocks – to some extent a lasting consequence of the global financial crisis in 2008.

Notwithstanding the differences in the underlying factors, as with the last crisis, one cannot understand their economic impact if one ignores the imbalances in international trade and capital flows. This situation originated in the late 1990s. As a self-proclaimed 'World Economic Council', in 1999 the G20 was the answer to the financial crises in the emerging countries. However, there is one institution to which all member states of the United Nations belong: the IMF. But this structure did not work very well – while in contrast, the G20 initially proved effective in responding to the 2008 financial crisis. The relationship between the IMF and the G20 is a complicated one.

'Extraordinary times require extraordinary measures,' said Kristalina Georgieva in her opening speech at the virtual Spring Meetings on 15 April 2020. To prevent the economic collapse, one lesson from the 2008 financial crisis is: spend as much money as possible as quickly as possible. In many ways, the IMF has rushed to allow massive amounts of aid to countries needing to deal with the Covid-19 crisis. On the one hand, the

IMF's emergency capacity for quick payouts has been doubled to meet the expected needs of around USD 100 billion and 103 countries have approached the IMF for emergency funding. There is also a completely new tool for short-term grants. On the other hand, trust funds are allowing debt relief.

So far, the only condition seems to be that the countries by and large commit to freeing up funds for their healthcare sector. The tragedy is that, in the past, the IMF's most frequently ordered adjustment measures in the Global South have been health, pension and social security reforms, as well as public sector wage cuts that include health care workers. After 2008, the IMF had become more flexible, for example with regard to capital controls – but with regard to Western Europe, not low-income countries.

Debt relief from the IMF for its 25 poorest members is a welcome step, but, according to Eurodad, this accounts for less than 1 per cent of the total foreign debt of low-income countries in 2020. A more important factor has been the symbolic pressure the IMF exerted on the G20 to do the same. It is estimated that China accounts for around one quarter of the low-income countries' loans. The G20 member is the largest official lender, ahead of the IMF and World Bank. After the IMF asserted its influence, the G20 actually agreed on a debt moratorium through the end of 2020, that is, a freeze of both principal and interest payments. The suspension of the debt service will release an estimated USD 20 to USD 25 billion to help the 77 poorest countries fight the pandemic. There is one serious shortcoming, however: the moratorium only puts off dealing with the debt burden into the future. Then the problem of insolvency could spread to the heavily indebted petro-states.

In order to adequately counter the financing crisis, many are demanding the use of special drawing rights weighted to the IMF country quotas. For many low-income countries that have limited access to international capital markets, the use of the IMF reserves free of conditions would be a lifeline. The proposal resonates with the G24, the group for international currency and development that was founded in 1971 by the developing countries. However, there is currently no special support for this from the IMF or – for political reasons – from the US, even though the US would benefit significantly from this. The allocation would also go to countries that either do not need to increase their reserves or – from the US perspective – do not deserve them. One valid objection is that an allocation according to IMF quotas means that only a fraction of the special drawing rights would go to the poorest countries. Once again, this shows that a reform of the IMF quotas is called for.

The election of another European IMF director, Kristalina Georgieva, last year was evidence for many that the search for top staff is still opaque and undemocratic. And yet the IMF's current crisis management shows that certain demands for IMF reform are in fact being met, indicating an orientation towards the particular problems of the poorest countries. In order to fulfil its crucial role, the IMF could now also coordinate international sovereign insolvency proceedings and enforce capital controls. It is now also important to support the IMF by increasing its loan funds to meet immediate financing needs. Donors should increase their contributions, and not taken them from development aid budgets. The poorest countries continue to face challenges that are only exacerbated by the corona crisis.

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