FOREIGN AND SECURITY POLICY 09.03.2021 | Jayati Ghosh

Europe could make good use of a new SDR allocation

As the G20 just agreed on a new allocation of special drawing rights, the IMF's reserve asset, Europe should transfer its shares to poor countries

In their saner moments, most progressives in the European Union might concede that the bloc has not acquitted itself very well as a global player during the pandemic.

To be sure, it has finally displayed some good sense in looking after its own, as the delayed but reasonably large EU-wide fiscal stimulus and future-oriented spending package suggests. And it has broken out of the counterproductive mindset which forbade the European Central Bank from buying the bonds of individual member governments and has even laid the groundwork for the kind of fiscal co-operation that behoves a monetary union. So citizens of Europe have some cause for relief, if not appreciation.

But *vis-à-vis* the rest of the world — especially the developing world — the EU's behaviour has ranged from dismaying to reprehensible to downright appalling. Expected debt relief to debtor countries in distress has not been forthcoming. Aid packages have been miserly in the extreme, even more so than after the Global Financial Crisis, and look particularly stingy when compared to the fiscal easements within the EU.

Sickeningly, countries within the EU and then the bloc as a whole have blatantly grabbed available Covid-19 vaccine production for the current year — through pre-orders, secretive side-deals and similar moves — and then been so incompetent in distributing it that some countries are simply stockpiling vaccine, rather than allowing it to be made available to more populous and poor countries.

Worst of all, EU member countries have actively blocked efforts to suspend intellectual-property rights such as patents, which would have enabled much more global production and ensured that people across the world have quicker and more comprehensive access to vaccines and other

treatment for the coronavirus. That this is self-defeating for the EU's own citizens, and caters only to the profits of the big pharmaceutical companies — which have already benefited from government subsidies — makes it even more disturbing from an external gaze.

None of this is a good advertisement for the EU's protestations of international co-operation and global solidarity, reducing its standing in the global community. In this context, most countries could be forgiven for looking askance at the EU's diplomatic efforts and being less inclined to take seriously its homilies and advice.

Sharing allocation

So how can the EU redeem itself internationally, especially as it seems unwilling to change any of these policies? There is one way to improve its currently unsavoury international reputation and do some good for the world economy (and its own economic potential) in the process. This would be by immediately sharing its allocation of the increased issuance of special drawing rights (a form of global liquidity) announced by the International Monetary Fund.

With the new administration in Washington under Joe Biden having withdrawn opposition to such an issuance, it is certain that USD 500 billion worth of SDRs will be made available. Ideally the amount should be much more — equivalent to USD 1 trillion or even USD 2 trillion — given the scale of the problem and the urgent need to provide resources to developing countries that are facing external-debt problems and desperately need more resources to combat the health and economic impacts of the pandemic.

Maybe it is too much to ask the EU to move beyond regional navel-gazing towards a more internationalist perspective.

Even this amount can however be leveraged to generate more impact. The new SDR issue will be allocated to countries according to their IMF quota, which is periodically determined by gross domestic product along with other factors such as openness, reserves and variability — essentially an estimate of relative economic power. In 2016, along with a quota increase of SDR USD 238bn, the IMF shifted more than 6 per cent of the quota shares from over-represented to under-represented countries, particularly China and other emerging-market countries. Nevertheless, IMF quotas are still dominated by advanced economies, which account for nearly two-thirds.

This has often been used to argue that most developing countries would gain relatively little anyway from an increase in SDR issue, since the bulk would be taken by advanced countries. It has been estimated that a USD 500bn increase in SDRs would deliver around USD 14bn in added reserves to low-income countries and USD 60bn to emerging markets. But even this smaller share would have huge impact for developing countries. For example, Venezuela would receive more than 8 per cent of its GDP, Zambia almost 6 per cent, Suriname 5 per cent.

Leading the way

And the benefits would be much greater if the advanced countries that will receive the lions' share of the SDRs — but are unlikely to use them because they do not really need to — would transfer their shares to developing countries, directly or to particular global agencies which could even be created for this purpose. The EU, whose members have 25.72 per cent of IMF quotas, could lead the way in this.

EU countries will receive USD 128.6bn of the new SDR allocation. Think what the EU could do with this amount, which it is unlikely to use otherwise. It could immediately eliminate or reduce a significant amount of the bilateral debt of poor countries held by its members—say around USD 20bn worth. It could easily put more money (say USD 3bn) into the COVAX vaccine facility, allowing it to reach or exceed its target of USD 6.48bn for 2021 (it has only raised USD 4bn so far), thereby enabling it to buy and distribute free vaccines to the poorest countries.

It could facilitate the Global Social Protection Fund which is being discussed in several international fora and provide significant seed money (say around USD 50bn) to support social protection in poor countries with a mostly informal workforce. It could encourage the creation of a Global Public Investment Fund, and begin by providing say $50 billion for that fund, to enable public investments in the developing world much needed for addressing climate change.

The EU could do all this and still not fully use up its allocation of additional SDRs. It would not even notice: member countries have barely touched their existing SDR allocations in years, if not decades. And doing this might nudge or push rich countries such as the United States, Japan and the United Kingdom to follow suit.

Maybe it is too much to ask the EU to move beyond regional navel-gazing towards a more internationalist perspective. Yet if even this costless and painless way of expressing international solidarity does not

do it, perhaps nothing will.

This article is a joint publication by Social Europe and IPS-Journal.



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