Strengthening the Multilateral System

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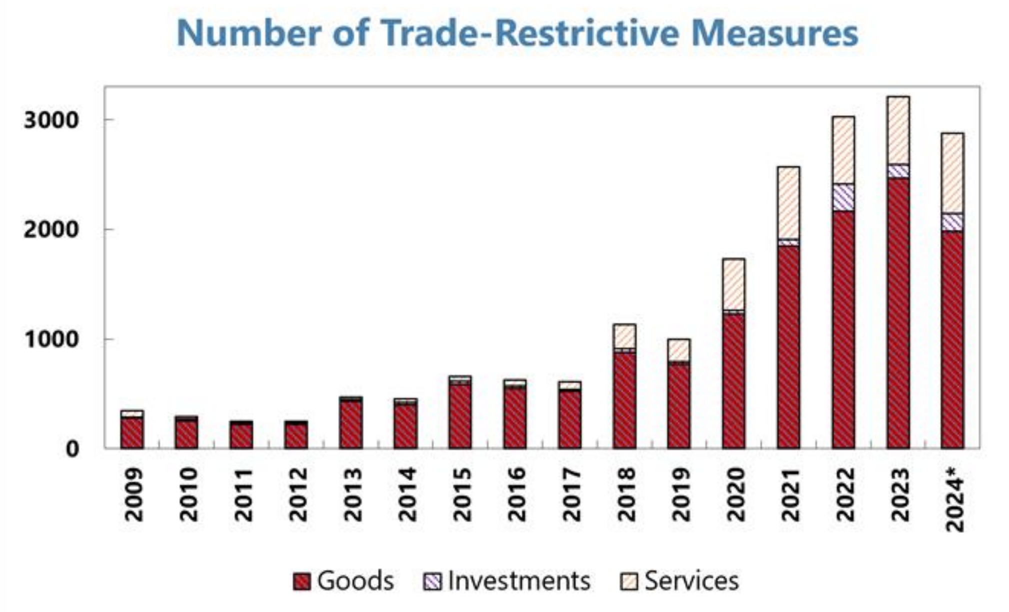
Roadmap for Future Role for IFIs

- Areas for Enhanced Surveillance
  - Evolving trade and trade policy landscape
  - Risks/costs of further fragmentation

- Possible way forward: pragmatic multilateralism

- Relearning lessons from the past
  - Ways forward for constructive engagement
  - Merging of trade and finance
  - New industrial policies

Use of trade restrictive measures and industrial policies are growing



Source: Global Trade Alert.
Note: Data accessed December 06, 2024; includes adjustment for reporting lags.
*Incomplete data for 2024 (as of 06 Dec). All other years include measures as of 31 Dec.

- Between January 2023 and December 2024 there were over **5,800 trade-distorting industrial policy interventions** worldwide.

- **China, EU, and the U.S.** account for about half of these measures.

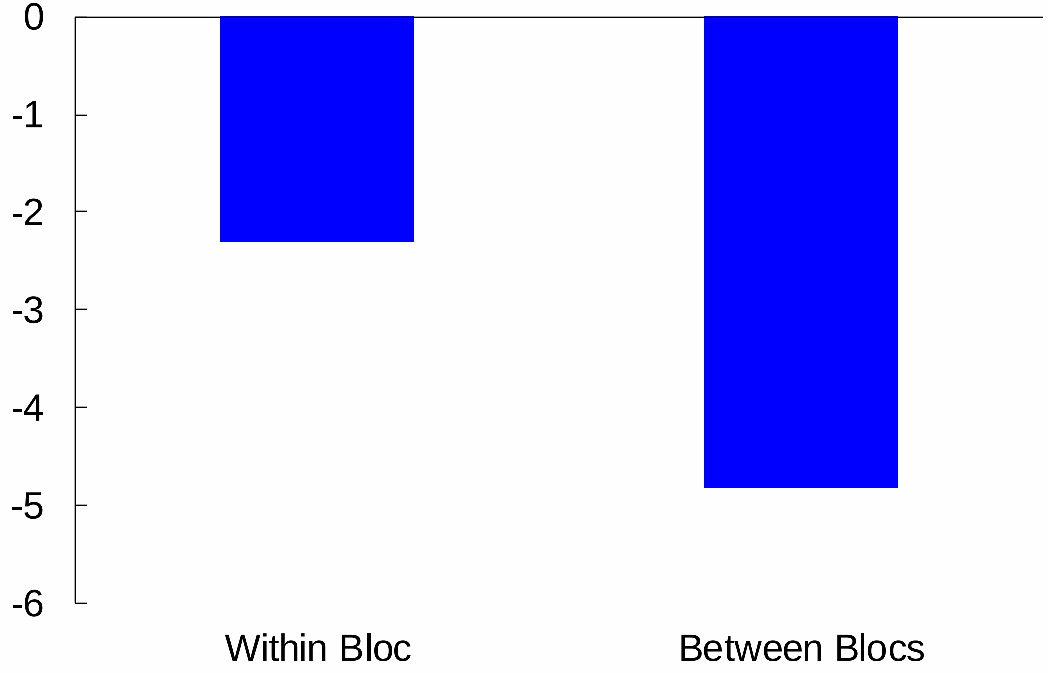
- Import curbs and trade distorting subsidies **increase probability of similar measures by trading partners.**

Signs of trade fragmentation

Fragmentation is associated to supply-chain reallocation and lengthening

Change in trade growth since the beginning of the war in Ukraine

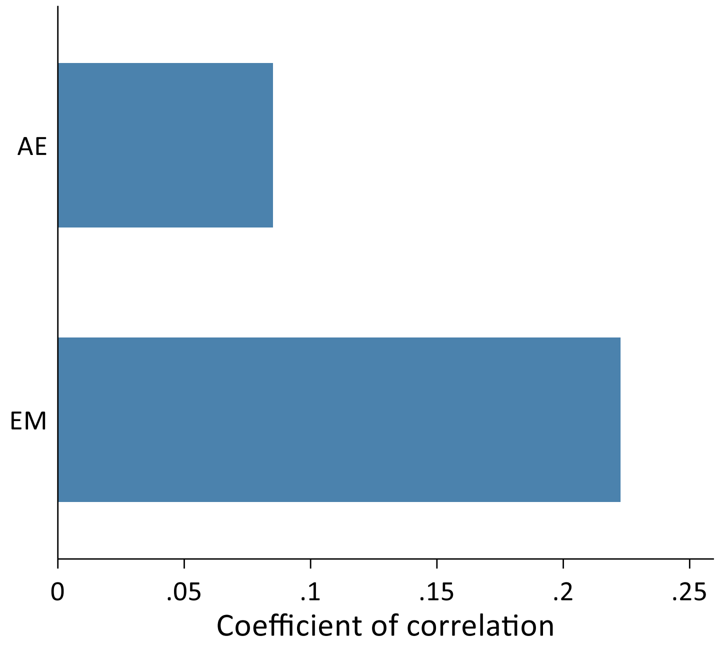
(ppts difference between 2022Q2-2023Q3 and 2017Q1-2022Q1)



Note: The hypothetical Western bloc is centered around US and Europe and the hypothetical Eastern bloc is centered around China and Russia. The rest of the countries are considered “Non-aligned.”
Source: Gopinath, Gourinchas, Presbitero, Topalova (2024)

Rise in countries’ exports to US and imports from China following a rise in U.S. tariffs are correlated

(coefficient of correlation)

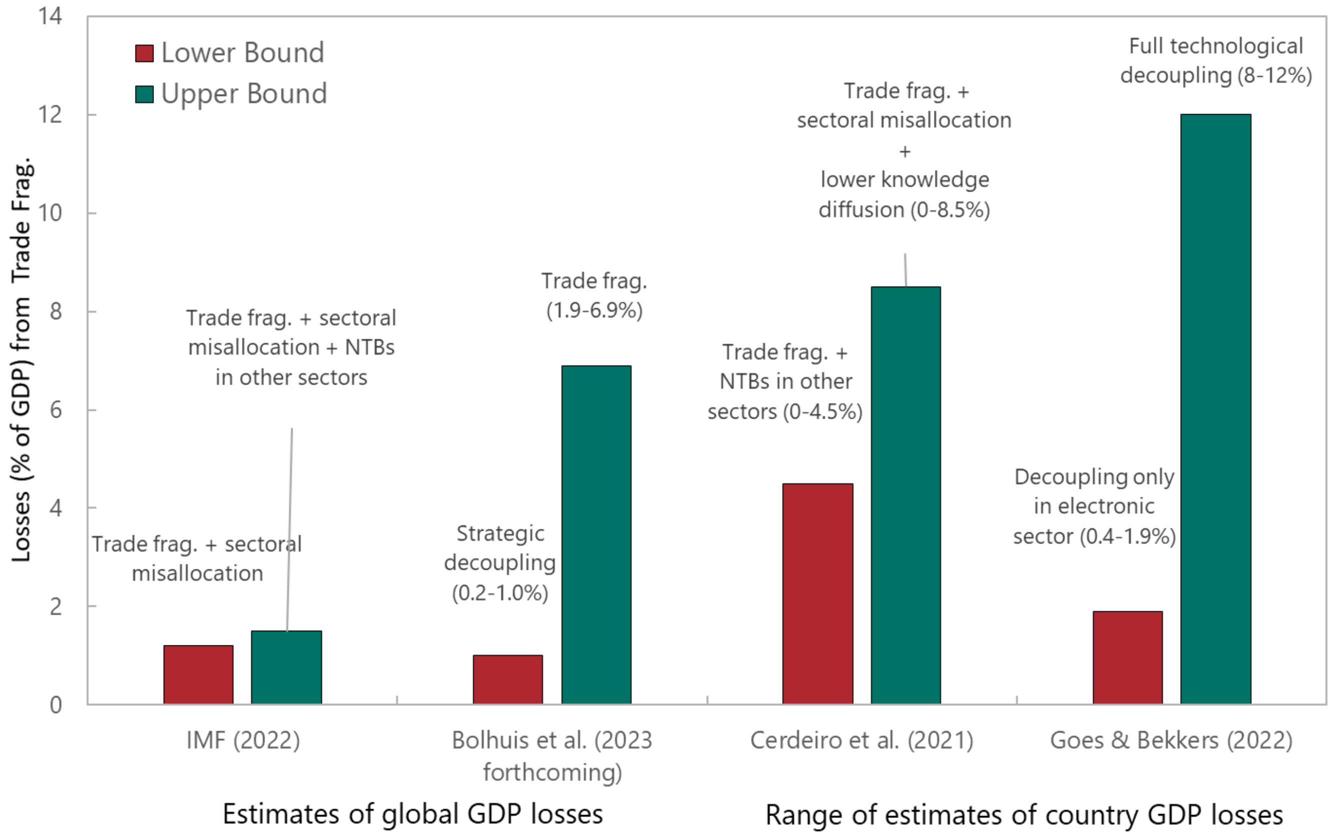


Note: The graph shows the coefficient of correlation between log change in exports to the US and imports from CN in 2017-2022 by income group. A positive correlation may suggest that direct trade is supplanted by indirect trade via third countries. Electronics refers to 2-digit HS 85. Trade data are sourced from UN WITS.

Source: IMF staff based on Freund, Mattoo, Mulabdic and Ruta (2023)

The deeper the GEF scenario, the larger the estimated losses

- Layering technological decoupling on top of trade fragmentation leads to bigger GDP loss estimates
- Estimates are heterogeneous across countries, in particular AEs vs. EMs / LICs
- Short-term elasticities are likely to be smaller than long-run elasticities, implying considerable transition costs.



Sources: Individual papers and authors' calculations.
Notes: Estimates of long-run losses (% of GDP) from Global Trade Fragmentation from various studies. Numbers refer to GDP losses that are not directly comparable across papers as some refer to global GDP while others refer to specific regions or countries. Numbers in brackets represent ranges of losses based on severity of fragmentation assumptions and /or geographical ranges. NTBs denote non-tariff barriers to trade. The height of each bar corresponds to the upper limit of the range.

The Future of Multilateralism? – A Pragmatic Approach

	Alignment of countries' preferences and actions	Corresponding types of international engagement
I	Issues where preferences are aligned and globally coordinated action is feasible	Multilateral engagement, open and inclusive
II	Issues where preferences are not aligned and globally coordinated action is not feasible	Plurilateral initiatives with "safeguards" (open, non-discriminatory)
III	Issues where preferences are not alligned and governments opt for unilateral actions	"Guardrails" to minimize systemic damage from unilateral actions

The Role of the IMF and IOs

Multilateral engagement (Pillar I) —	Plurilateral engagement (open and non-discriminatory) (Pillar II)—	Guardrails on unilateral actions (Pillar III) —
Surveillance/analytics -- to inform the international community about the international impact of unilateral actions. The convening role -- to bring together countries to discuss issues of common interest and develop common approaches.	Surveillance/analytics and CD -- best practices, guidance on modalities and safeguards; CD, if needed. The convening role -- to help build bridges across open and non-discriminatory plurilateral initiatives.	Surveillance/analytics and CD -- to help inform the design of guardrails; policy advice to members and CD, if needed. The convening role -- to improve information on unilateral actions and on their cross-border spillovers.

To be effective the Fund should be

Representative of its global membership

Evenhanded and impartial in its operations and policy advice

Adequately resourced for a more shock-prone global environment

Experience from the 1980s with agriculture negotiations is instructive…

- In the 1980s, large agricultural subsidies precipitated discussions to control costs and reduce trade tensions

- Finance ministers initiated a dialogue to control the fiscal costs with high support levels.

- Information on level of support facilitated multilateral negotiations and 1995 Agreement on Agriculture including on OECD methodology.

- Result: Public support as measured by Producer Support Estimates (PSE) declined from 35 percent in 1986-1988 to 15 percent in 2020-22.

…and may provide a way forward for promoting multilateralism

- **Current discussions on industrial policy hampered by limited information on the magnitude and significance of government support.**

- **Highlights need for credible and comprehensive metrics of state support.**

- **Filling data gaps on policy interventions and further analytical work would strengthen understanding and cooperation.**

- **Complement with greater understanding of macro drivers of global imbalances and appropriate macro/structural policy mix for addressing**

- **IMF, WTO, OECD, and World Bank advancing this work, leveraging combined expertise of finance/trade ministries and central banks.**

THANK YOU