

**BUILDING THE NEW MULTILATERALISM IN GLOBAL FINANCE: TRANSCRIPT OF
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G20 EMINENT PERSONS GROUP ON GLOBAL FINANCIAL GOVERNANCE,
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Her Excellency, Inga Rhonda King, President of ECOSOC,

Her Excellency, Maria Fernanda Espinosa, President of the General Assembly,

Distinguished delegates,

Colleagues and friends

I thank you for this opportunity to address the fourth ECOSOC FfD Forum, and to be speaking after a very thoughtful set of opening remarks. Let me get straight to the heart of the challenges we face.

Why International Finance Needs Reform

First, it is virtually certain that we will not achieve the Sustainable Development Goals (SDGs) without major and fundamental reforms in the way we organize finance for development. Any objective assessment would tell us that.

Secondly, and underpinning this, is the risk that we are drifting into a more fragmented world. It is happening both through regressive actions and inaction. It is fundamentally unravelling the global alignment of interests that developed from the late 80s. There is a very real risk of this drift into fragmentation. It starts with frictions, but unless quickly resolved they tend to harden over time. You eventually get rifts between nations and whole blocs of countries - rifts in trade, in finance, in technology, and in data.

It will be a weaker world. It will weaken our capacity to deal in the first instance with national challenges, which are in most places much larger than they used to be. It will also weaken our capacity to deal with far more complex global challenges that we face in the decade ahead.

It is therefore critical for the SDGs, and everything we aim for nationally, that we build a new, cooperative international order, for a world that has changed irreversibly. It is a more multipolar world, and therefore more decentralized in its decision making. But it is, paradoxically, not just more multipolar and more decentralized, but much more interconnected than it used to be.

It is also a world that faces challenges on a scale and complexity that has not been seen in decades. The next decade in particular, is critical. The G20 Eminent Persons Group on Global Financial Governance (G20 EPG), that I was privileged to chair, has come up with proposals for practical reforms to the global financial system to help build this new, cooperative international order. In fact, the speaker coming after me, Dr Raghuram Rajan, was also a member of this group. But let me just very briefly summarise the scale and complexity of the challenges, which explain why fundamental reform is necessary.

The first challenge, and a very immediate one, is that we are not prepared to create the jobs required for a very large youthful population in the developing world. The size of that youthful bulge, young people who will be entering the workforce, vastly exceeds what we have seen before. If you take just Africa and South Asia alone, the size of that youthful bulge is about three times larger than what China saw 30 years ago when it was at its peak in

its youthful demographics; that was around 1990 when China was at the peak of its youth population, and they subsequently entered the global workforce. We now have a scale of challenge just in Africa and South Asia alone that is three times larger, but we are far less prepared than China was 30 years ago by almost every measure of education, skills development and the ability to provide jobs for young people.

The second challenge intersects with the first. A failure to create jobs will intersect with the challenges in the global commons. Climate change is on all our minds, and it is the largest challenge. But it is not just climate change. It is that combustible mix of climate change, the loss of the world's biodiversity - including the loss of agricultural land and of phosphates in the soil - the loss of groundwater, and the spread of anti-microbial resistance and its implications for the spread of infectious diseases globally.

The consequences of failure to create jobs, compounded by failure in the global commons, will obviously not be purely economic. They pose a real threat of forced migration on a scale that we have never seen before, frequent global pandemics, and a deeper loss of confidence in an open global system, which will have its own dynamic.

The third and related challenge is in the system of global finance itself. It is not fit for the future. It is not able to provide either the scale or reliability of financing required for the future of development. The scale of financing required is much larger than what we have seen before. And we need a more reliable system of finance.

Those who studied the basics of international economics and development would have learnt that capital would flow from more advanced countries to developing countries, providing needed investments for development and higher returns for savers in the advanced world. In other words, the textbooks had capital flowing 'downhill'. In fact, capital flows are now much larger than they used to be, but they flow in both directions. Capital flows are also fickle, flowing suddenly in either direction. The ability of countries to grow and to embark on development strategies which they have confidence in financing has been significantly limited.

Think back to the 1970s and 80s, when the first wave of East Asian countries through integration with global markets. Think about the current account deficits they ran. The Koreas and Singapores of the world ran current account deficits of more than 5% of GDP a year for a significant period of time. In other words, we saved as we grew, but we invested much more than we saved. So investments exceeded savings, and we ran deficits, but they were financed reliably. Those days are unfortunately over. Today, even if you run a current account deficit of 2% of GDP, the markets punish you. They reward you too much for a while and then they punish you. Capital flows are too fickle, and it makes emerging and developing countries too dependent on policies in a few advanced countries. Small changes in policy in the most advanced countries can have large spillovers across the rest of the world.

It is not a system that supports growth. Remember that the world depends on the growth of the developing and emerging countries. If you take the last 10 years, about one third of global growth came from China, another third of the growth came from the rest of the developing world, and one third came from the advanced world powered especially by the United States. As the advanced world enters a secular slowdown, as many expect, the world will depend critically on growth on the developing world. So we do have to think of reforms to the system of global finance that can finance growth in the developing world more reliably and on a much larger scale than we have seen before.

No Either-or Choice between National Strategies and Cooperative Internationalism

The fourth challenge lies in the crisis of multilateralism itself. We have reached the limits, as I mentioned, of that alignment of interests that developed from the late 80s. We need a new system of cooperative internationalism.

We know that the push-backs against an open, integrated world order are at their heart about domestic problems. And they are not new. The push-backs are not due to current governments or administrations; they go back several decades. The fundamental solutions therefore are domestic and national. I am sure my fellow keynote speaker and colleague, Dr Raghuram Rajan, will be speaking about this.

But it will be a mistake to think that we have some sort of either-or choice between national strategies and cooperative internationalism. There is no either-or choice. There is no win-lose choice, in other words, I do something nationally that will help me win, even if some others lose. It is either a win-win solution, or a lose-lose solution. That is the choice we face. If we fail to build a new system of cooperative internationalism, we end up in a lose-lose situation, where growth globally and nationally slows down, job creation becomes more difficult, productivity growth and innovation slow down too, and financial stability and the global commons get more fragile.

Building the New Multilateralism in Global Finance

There is no going back to the old multilateralism. We no longer have a single conductor. There are already several orchestras in place. We need a new harmony. But we only get a new harmony, if we have a new musical score, and everyone is playing from that same score – you can be in a different orchestra but we have to play from the same score.

We have to build this new multilateralism. It does not need new institutions, multilateral or supranational. But we must create a new system of networked leadership amongst existing bodies - global, regional, bilateral and national. It must be a system of shared responsibilities, of common standards in development finance, and of maximum complementarity between these existing bodies. We also need a system of new global policy norms, including new norms for national policymaking, to ensure that we can meet our domestic objectives without large spillovers to the rest of the world.

We must take bold and defined steps to achieve this complementarity between global, regional and bilateral institutions, so we can maximise development impact in each country and region, and not just compete for projects or schemes between different institutions. We must achieve much greater development impact, and over a longer period of time, if we are to tackle the much larger challenges of the decade to come.

Making the System Work as a System

I will very briefly cover the thrust of the G20 EPG's proposals, without getting into details. Underpinning them is the need to make use of the system as a system, not just an agglomeration of individual institutions and schemes.

First, we must build country and regional platforms that bring together and leverage the strengths of all the official financial agencies - IMF, World Bank, the other Multilateral Development Banks (MDBs), the regional banks, and the bilateral players who are also very energetically engaged in development and finance. The platforms require agreeing on core standards, such as on debt sustainability, anti-corruption, and sustainability. They must also include the UN system, besides the multilateral financial institutions, because the UN system in many countries brings the political legitimacy and needed expertise.

We must also use country platforms to advance technology adoption. It offers new possibilities in development - whether it be technologies for weather or disease resistant crops, agricultural sustainability, FinTech innovations that enable us to insure risks on a more efficient basis and to include large unbanked populations within the financial system so that they can save and invest for the future. The MDBs, together with the UN agencies, must be key agents for propagating these new technologies.

Second proposal, we've got to scale up finance to a much larger volume than we have seen before, if we are to achieve anything close to the Sustainable Development Goals. The scale of the challenge vastly exceeds what official finance is able to provide, so we have to reorient the business models of the MDBs to help countries to mobilize much greater private capital. It is not an ideological or philosophical shift. It is a recognition of the fact that the scale of financing required in future vastly exceeds what official finance can provide - be it ODA, the MDBs, or the DFIs, the development finance institutions. If you add all of them together, they are far, far short of the scale of financing required. But there are large volumes of private capital globally that can be mobilized for development. More private investment is possible even in states with features of fragility, if accompanied by the investments by the MDBs.

To do this, we have to take advantage of the system as a system, and run development finance as a system, rather than as a collection of individual projects. In particular, we must diversify the risks of investments in development across the international system, so as to lower risks. So it is not about risks in any one project, or one country or region, but a diversified pool of risks.

We have to insure risks across the system, and develop a large asset class of securitized instruments that have diversified risks, so we can attract much larger volumes of private capital. In particular, we must attract institutional capital - these are the insurance funds, pension funds and sovereign wealth funds, who are now only minimally present in investments in developing country infrastructure. They will be much more willing to invest in a large, diversified asset class of developing country infrastructure.

The MDBs however play a critical role, together with the IMF, in mitigating the risks of investments in the developing world, hence bringing down the expected private returns so that it is also affordable for developing countries. There is no point having private capital come in and demand very high returns. It is unaffordable for countries. But if we de-risk the investment environment, if we use the system as a whole to diversify risks, we can lower significantly the expected returns on investment, and make it feasible for the countries. There is significant potential for this, and frankly, it is not new-fangled or very sophisticated finance. This is plain vanilla finance that we have to use to spur larger volumes of development finance.

Third, the global commons need stronger joint capacity. I would say, quite frankly, that there is today a great deal of duplication and overcrowding in some areas and big gaps in others. Just as I spoke about country and regional platforms for development finance, we need globally too platforms that bring all players together, with more clearly delineated responsibilities, in order to strengthen the impact of our efforts on the global commons - climate change, health pandemics, and the other challenges of the commons. The UN plays a critical role here too. One of the G20 EPG's proposals was for the UN guardian agency for each of the global commons to co-chair with the World Bank, a coordinated network of action.

Address the Root Causes of National Anxieties

Finally, and I say this by way of conclusion, we have to manage the push-backs to globalization in a different way. Too many of the actions we see today nationally are focused on the

manifestations of frustration, anger and anxiety in our populations. Too little is focused on the root causes. It may be politically appealing in the short term to focus on the manifestations, but it is going to be self-defeating in the long term, or even on a five-year basis. We have to focus on the root causes of domestic dissatisfaction if governments and businesses are to regain trust nationally, and if we are hence also to build a new system of cooperative internationalism.

We also have to move beyond positions taken in international financial fora that are based on where we sit. To advance the needed international reforms, be it a stronger global financial safety net with the IMF at the centre, or a system of global finance with less spillovers, or a system which scales up development finance, we have to move away from thinking of our positions based on where we sit - whether I sit in an advanced economy, or a middle-income or low-income economy. Too much of the debate today, and I say this with many years of experience in various fora, is based on where we sit. I can almost predict which position each country will take before the discussion starts, and it does not shift. It is self-defeating, not just for multilateralism; it is ultimately going to be self-defeating nationally.

We need a new, collective resolve that recognises that we all have a vested interest in an open, integrated international order. It is a vested interest that we all have nationally. And we are all responsible for the global good. We are all responsible, as Secretary-General Guterres said earlier this morning, for ensuring that no matter where you are born, no matter how marginalized your background, the world will help carry you to a better future.

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