International Monetary Fund
Russian Presidential Academy of National Economy and Public Administration (RANEPA)
Globalization 4.0, Changing World Order and the Future of Global Economic Governance
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Introduction

Good morning! Thank you, to Vladimir Mau and RANEPA, for convening us to discuss the major shifts taking place in the global economy.

These shifts in technology, geopolitics, the environment and society are bringing forth a new era of globalization whose trajectory will in large part depend on how well governance at the global level can adapt to address these changes.

That forward journey—the priorities for multilateral cooperation— is what I would like to discuss with you today.

But first, let us briefly consider the past 75 years.

The past

The architects of Bretton Woods were deeply influenced by events between the two world wars, when multilateralism broke down amid protectionism. The collapse of world trade deepened the Great Depression and ultimately gave way to world war.

But in the aftermath, lessons were drawn. There was a new-found appreciation of how much national and global economic interests were interconnected. 43 countries came together at and resolved that economic development and global financial stability are necessary conditions for peace. They created the Bretton Wood Institutions, the World Bank and the International Monetary Fund, to shepherd.

The results since then have been tremendous: average life expectancy has increased by 25 years; global GDP per capita is five-times higher than in 1945; over one billion people broke free of poverty; and many more have experienced the mutual benefits of trade integration which has increased productivity and wages and reduced the cost of living.

But these gains have not been shared by all. And many people have been left behind, fueling political polarization and populism.

Part of the problem is the rise in excessive inequality worldwide. This is both a national and a global challenge. Although poverty rates have declined, the top-tenth of the top one percent has garnered roughly the same economic benefits that have accrued to the bottom 50 percent.

We are now at risk of a reversal in multilateralism.

Shifts in the global economy call for a revamp in governance

Let me now turn to the ongoing shifts in the global economy that will call for a revamp of global governance.

The rise of China and other economies fundamentally alters the global landscape. As emerging market and developing economies grow and incomes converge, the share of advanced economies in global output is expected to fall from more than one-half to about one-third over the next 25 years.

In response, the Fund's governance must continue to evolve to allow countries gaining in economic importance to take on commensurate responsibility in their say at the Fund. We have to continuously align tools and policies with the changing economic environment. The inclusion of the renminbi in the SDR basket a few years ago demonstrated our ability to change with the times.

Second, aging populations in the advanced economies will gradually consume savings even as younger countries need to finance investments. And eventually, rising life expectancy and declining fertility rates likely will bring the issues of aging to the entire world.

This will have profound implications for global trade and capital flows.

Third, hubs of economic activity will shift over the coming decades. New financial centers will grow in importance. New reserve currencies may eventually emerge.

Throughout all that, we should maintain an international monetary system robust enough to facilitate the economic adjustments accompanying these transitions.

Adapting to new technology

There are other momentous changes in the economy.
What we call 'Fintech'—the provision of credit and other financial services through electronic platforms—offers the potential to significantly increase efficiency and transparency in the financial sector. We are on the verge of a transformation that could bring enormous benefits. For example, look at Fintech's capacity including through peer lending, to end financial exclusion for the 1.7 billion people who have no access to banking.

Another aspect of interest has been the nascent development of central bank digital currencies, and the possible emergence of privately-backed "stablecoins" for digital payments—think of Facebook's Libra. These new instruments aim to do for payments what the internet has done for information: make transactions secure, instantaneous, and nearly free.

Notwithstanding the benefits, there are very real downsides to these developments.

We have identified several risks. I will name a few: the potential emergence of new monopolies, with implications for how personal data is monetized; the impact on weaker currencies and the expansion of dollarization; the opportunities for illicit activities with significant threats from cyber-attacks and cyber-criminals; and more generally threats to financial stability.

[It is a humongous challenge for regulators trying to address these new sources of risks. In an effort to create an environment where the benefits of Fintech can be realized while the risks are minimized—together with the World Bank, we developed the Bali Fintech Agenda, a framework to help our member countries take advantage of innovation, but also better cope with the new risks.]

Priorities for Multilateral Cooperation

As you can see, these are issues that no country can solve alone.

So, we need to coordinate efforts. Where should we start and what are the priorities for multilateral cooperation? The list is long—cybersecurity, demographics, migration, corporate taxation, climate change etc—so I will focus on a few:

- [First, we can use fiscal policy to help address inequalities. This has been a part of the economic toolkit for many years, but the Fund recently developed a framework for increased social spending in member countries].

- Reforming international corporate taxation is priority and a challenge for all countries. Emerging and developing economies rely especially on corporate tax revenues to fund essential investment in people and infrastructure. Our analysis shows that non-OECD countries lose about $200 billion a year because companies are able to shift profits to low-tax locations.

- Digitalization in the new era creates an additional challenge for the current taxation system, because companies don't need a physical presence to sell their goods and services and rely heavily on intangible assets, which can easily be relocated to avoid taxes.

- [There is a growing need to tackle cyber security as a global issue through the convergence of standards across jurisdictions. Here we have stepped up efforts to build capacity in countries.]

- [In an effort to create an environment where the benefits of Fintech can be realized while the risks are minimized—together with the World Bank, we developed the Bali Fintech Agenda, a framework to help our member countries take advantage of innovation, but also better cope with the new risks.]

- Another important priority is for countries to work together to reduce trade barriers and modernize the international trade system. This means new trade deals to further integration in areas such as in services and e-commerce. This means addressing issues like state subsidies, intellectual property, and data privacy. And it means having rules-based frameworks to ensure fair competition and a level playing field. This would go a long way to reduce the trade tensions that threaten to undermine global growth. As we move forward, we need collective action to modernize the key functions of the World Trade Organization: from negotiation, to transparency, to dispute resolution. Finally, on trade, we attach great importance to government policies that facilitate adjustment to trade/technology. We believe this is a key element in sustaining public support for openness and multilateralism.

- Finally, we must respond to climate change. The economic consequences if we don't will be dire. That is why we are increasingly engaging our membership on mitigating and adapting to climate change, advising on energy subsidies and carbon pricing. We have focused in particular on pricing carbon emissions and reducing energy subsidies—which amount to about $5.2 trillion per year, or 6.5 percent of global GDP.[i] Both of these policy tools would go a long way to help mitigate the effects of climate change.

Conclusion

We are confronted by a changing economic landscape that places a premium on coordinated policy action. These are some of the issues that Finance Ministers and Central Bank Governors will continue to discuss at the IMF and World Bank's Annual Meetings in Washington next week. [Redraft]