Brief Remarks by Mohamed A. El-Erian
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Thank you very much for the opportunity to join you today. It is a great honor and pleasure to be here and to be a small potential contributor to your important work. And thank you for the opportunity to see so many old friends sitting around the table.

My remarks this morning are based on three main hypotheses on the what, why and so what of the global economic order:

- First, the global economy is in need of a better conductor function – not only, as noted in the background note, to meet more fully its potential and deal with new and important economic questions that can only be addressed effectively through collective action (such as those associated with climate change and the increasingly exponential advances in AI, big data and mobility) but also to offset the cumulative challenges of too many years of low and insufficiently inclusive growth and to reduce the destabilizing risks of a growing number of more familiar global adding up problems including on trade and foreign exchange.

- Second, the implicit contract associated with the traditional core-periphery global construct is strained. These days, it is seen by too many as less credible and less stable. As such, the forces of fragmentation are growing, both among/within advanced economies and in countries traditionally deemed to live in the periphery that are now looking to increase their resilience by constructing small pipes around the core.

- Third, absent a comprehensive policy handoff that has both bottom-up country-specific actions and top-down collective multilateral ones, the last few year's prolonged reliance on unconventional monetary policy risks fueling a renewed phase of unsettling financial instability at a time of rather limited spare tires for the global economy.

Because of these three hypotheses, the global economy seems increasingly at risk of stumbling along the path towards a new economic "non-order" that includes key aspects of Ian Bremmer's notion of the G-Zero. This is a situation that, were it to materialize, would eat away more at the world's potential for inclusive growth, amplify political and geo-political tensions, further erode trust, worsen the inequality trifecta (of income, wealth and opportunity), and turn elevated asset prices into a standalone risk for derailing actual growth. Indeed, if you buy into one or more of these hypotheses, then you have to worry that we are witnessing a meaningful erosion of the win-win-win paradigm that has underpinned the current world economic order and its prosperity gains.

Yet all this doesn't mean that you also have to pivot immediately to recommending new institutions or a radically different construct for the global economy and the international financial order. Indeed, the first step is to analyze the major disconnect between the capabilities of the existing system and its effectiveness and impact, and then to assess the scope for course corrections.

For illustrative purposes, I think of this as a 2x2 matrix in terms of possible practical steps. On one axis, we go from the low hanging fruit to the more ambitious. The other speaks to the current economy and its likely future evolution, including the baseline and the known unknowns.

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With this as context setting, let’s transition from the why to the what and the so what, to a solution set.

As mentioned earlier, what is lacking today is not an issue of institutions, mandates or construct per se. We have all this, and in – I would suggest – in ample supply. Indeed, it is less an issue of design, and more one of implementation and effectiveness.

This is especially true for the IMF with its virtually universal membership, its comprehensive Articles of Agreement, the talented staff, and its unique access to country officials around the work. It is also the case for the G-20 whose representation dominates that of prior groupings.

Yet, despite some reforms, too many IMF activities – as well as the more visible aspects of voting, representation and high-level appointments – remain a reflection of the realities of yesterday rather than today and probably tomorrow. And while the G-20 has much better representation, the continuity of its work and the effectiveness of the follow up remain important issues to be addressed.

Over and over again, in going from what is desirable to what is implementable, two key basic questions often fail to get enough attention at virtually every stage of the process are: First, what are the market and/or public sector failures that are acting as binding constraints and need to be addressed; and second, what are the compromises that need to be made more explicit, including a better balance between commercial and developmental objectives in a manner that both sides see the inevitable compromises as constituting a net win.

Add to that the inevitable tensions that have arisen in history between rising powers and established powers – which, these days, are accentuated by the unusual historical event of a relatively low-income country (China) acquiring massive systemic importance while still navigating the middle-income transition. The result is cascading challenges whereby the below-potential functioning of global economic and financial governance could worsen rather than helps alleviate challenges at the national and regional levels.

As such, the actual and prospective risk of fragmentation is growing. And it goes beyond the notion of a “new regionalism.” It also speaks to the risk of a non-order whose cost would felt in terms of foregone growth and higher risk of financial stability, both of which would feed into the threat of even more politics of anger, a further loss of trust, and institutional instability.

Fortunately, there is little that is pre-destined in all this. Indeed, it need not be so. And to illustrate this, here are 5 things that can be done within the existing structure to lower the risks:

First, improve the functioning of the G-20 itself, including by enhancing continuity, follow-up and interactions. The background note presented to the IMF rightly points to the need for the G-20 to go through the existing multilateral institutions to make reforms durable. But to increase its own effectiveness over time, including better continuity and more effective follow-up, the G-20 should establish a small (2-3 person) secretariat housed in the IMF and with access to IMF research and data resources. This would also enhance coordination and support more even-handed "surveillance," including when it comes to the spillover effects of national policies that operate through the financial markets rather than traditional demand and exchange rate channels. (An issues that I will return to.)

Second, send a clear message about voice and representation . This could start with relatively straightforward changes to the process for selecting the Fund's Managing Director that builds on the steps taken in recent years, and do so in the context of removing other remaining and outdated nationality-based criteria.

The timing may be especially good as the term of the IMF MD has been recently renewed, as has that of the President of the World Bank. The first simple tweak would be to explicitly prohibit lobbying during the nomination period. Given the different speed it takes for countries to iterate to nominations, this would help level the playing field and counter undue pressure for governments to commit their votes when there is only partial information about the candidates (as has happened in the past).

Third, provide better 2-way linkages between the growing number of regional and bilateral arrangements/institutions and existing multilateral ones. The BIS points to important operational insights here; and, less positive, the troika approach used in Europe provides a cautionary tale. This could include giving more teeth to the Cannes 2011 G-20 principles, especially on transparency and effectiveness.

Fourth, do more on PPPs (public-private partnerships). Infrastructure (both expansion and modernization) is a low hanging fruit here that, still, is not being sufficiently harvested. Its value proposition is well known: that is, the co-existence of considerable infrastructure needs and of ample long-term funding looking for long-duration exposures.

The approach is evolving, including with the World Bank's renewed emphasis on, and I quote from President's Kim 2017 Annual Meeting speech, "crowding in private sector investment and making it work for developing countries and poor people." But, not enough being done to identify anchor investors consisting of long-term institutional investors and sovereign wealth funds. And more could also be done in terms of an MCC-type approach to formulating anchor cross-border projects. Similarly for the tranching and bundling of risks that can better align incentives and risk preferences for both sources and uses of productive capital.

Fifth, use some of today's, relatively new and unsolved collective problems to demonstrate that multilateralism still has an important supportive role to play to national policies – especially when the underlying issues do not easily fit into national borders. Here, I am influenced by lessons from, first, the last 15 year's experience with improving the delivery of vaccines to developing countries; second, how CAT bonds have deem to enhance insurance availability against natural disasters; and third, the upside of completing markets.

Led by the G-20, the international community can get a lot better at creating the environment that improves the "benefits-costs-risks" equation associated with the increasingly exponential application of advances in AI, big data and mobility.

Remember, we are talking here about a multifaceted phenomenon that has become systemic in nature at a much faster rate that national governments and society – as well as the companies themselves – expected and were prepared for. The illustration is seen in a range of economic, financial, institutional, political and geo-political challenges.

The emergence and growth of cryptocurrencies poses similar challenges, as does the morphing and migration of financial risks out of the banking system and to the non-banks. Similarly for the tendency of the financial system to over-promise liquidity to users, conditioned by years of repressed financial volatility and ample injections of funds.

For each of these, national challenges are compounded by cross-border ones. And if we do not upgrade the way we think about these issues, the risk is of a response that not only imperfectly addresses the costs and risks, but also unnecessarily squashes the associated opportunities.

Drawing from earlier challenges, mindset is key here, and it needs to be supported by structural improvements: First, working harder upfront to identify the key market failures as one of the major ways to de-risk (and not just risk share) the phenomena; second, having an open mind for menu approaches in designing solutions; and third, being open to tranching and different bundling of underlying risk elements.

How about the other cells in the 2x2 matrix that speak to more ambitious, and more forward-looking efforts? Being more forceful in what the WEF has called "the untenable slowness of progress" on reforming voting power in the IMF, particularly a shift from Europe to developing countries. This is probably one of the most visible, important and overdue step to properly align incentives, and increase both the resilience and agility of a multilateral system that supports stronger, more sustainable, more balanced and more inclusive growth at the national level.

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Let me conclude please by noting that the alternative is not the status quo. The loss of trust being felt nationally and regionally is also happening at the multilateral level. As a result, it is likely that alternative structures and arrangements will proliferate in an ad hoc fashion, making it very hard to reconcile with multilateralism in an efficient and orderly fashion.

The existing system can – and should – do more and better. Using a military analogy, the G-20 can provide the important "air support" for the more micro changes on the ground, especially when it comes to overall design, analytics, thought leadership and review. Undoubtedly in my mind there is a considerable scope for greater win-win-win outcomes. That is:

- win for the public sector in enhancing funding and effectiveness, and also reducing the risk of future economic and financial instabilities;

- win for the private sector in completing markets and appropriate risk sharing/transfer; and

- win for critical activities in the global economy that have high potential social returns but remain chronically underutilized.

Thank you very much.