

**Henry Owen Memorial Award Essay Contest 2022**

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The world is in polycrisis but global governance is fraying, if not absent.<sup>i</sup> COVID-19 ravages on with a disproportionate toll on the developing world, where the death rate is four times that of high-income countries.<sup>ii</sup> Sovereign debt distress looms, with high risk levels for 53% of low-income nations and the World Bank warning of debt risks hidden in nontransparent reporting.<sup>iii</sup> The Russian-Ukrainian War has, among other things, spurred inflationary pressures. Lest we forget, climate change already spawns refugee crises and threatens catastrophe in a not-too-distant future. In a world where crises intersect, complexity is *the* puzzle to solve, demanding interventions moving in different directions and at different levels. To revitalize themselves as levers of change aimed at a resilient, equitable, and sustainable post-pandemic economy, International Financial Institutions (IFI) must tug at different threads with boldness and haste, while keeping an eye on an ever-evolving big picture.

In the first instance, it cannot be taken for granted that the COVID-19 pandemic will resolve itself. Shanghai today has been thrown into another draconian lockdown. Despite the fact that a global pandemic clearly requires global solutions, the sheer disparity in vaccine acquisition and distribution signals a world where non-white bodies remain undervalued. If not willing to use its voice to intervene in a normative debate implicated in global racism, the World Bank must appropriate utilitarian arguments to muster and properly channel funds into local institutions, with the goal to vaccinate the world. This is the only way to reduce coronavirus mutations, which could eventually threaten vaccine protection, and which would surely reverberate throughout an interconnected globe. To counter the exacerbation of within-country inequality, interventions in education must also assertively seek to prevent a lost decade of human capital development in the Global South, the failure of which threatens social instability and political unrest.<sup>iv</sup>

If the economic 'long COVID', as Martin Wolf says, is of financial distress, then IFIs like the International Monetary Fund (IMF) must confront debt distress by developing a mechanism to restructure sovereign debt. It is worth mentioning that the G20, which is run informally and without a permanent secretariat, has yet to prove itself, with its Debt Service Suspension Initiative leaving much to be desired in its ability to bring creditors to the table and its narrow

range of application.<sup>v</sup> In the meantime, debt relief, if attempted, must be sincere, with proper resourcing at the World Bank and the IMF. Crucially, bad debt needs to be handled early, while debt restructuring should occur with sufficient haste, lest populations suffer unnecessarily as technocrats quibble over details.<sup>vi</sup> At a more fundamental level, there needs to be a deeper appreciation of the risks and potential losses involved in the issuing of debt; creditors seeking to bend institutions to have debtors serve their payments at all costs can create a perverse moral hazard. Debt with issuing risks should be understood as such.

To be sure, IFIs are not shielded from great power politics. While one hopes that the Russian-Ukrainian War will reach a plateau or near its end, it is unclear what bifurcation between Russia and the developed West would entail for the global political-economy; a New Cold War will surely spark new challenges and crises. In the meantime, the US and China are in the process of reaching a new Modus Vivendi – one where the US accepts the rise of China with strategic posture, not escalatory alarm. Here, IFIs like the World Bank and IMF, effectively led by the US, should search for pragmatic compromise. It was, for example, a mistake for the US to not join the Asian Infrastructure Investment Bank (AIIB). So-called ‘realist’ policies which lean towards zero-sum calculations should make space compromise and a clear-eyed view of objectives, such as that of transparent financing. Indeed, the climate question necessitates China’s participation in energy transition and climate financing, of which the latter should be regarded not simply as an existential imperative but a wholly attractive business proposition.<sup>vii</sup>

In summary, global governance cannot be taken for granted as polycrisis threatens global order across multiple dimensions. IFIs, for their part, should pursue policies that work to form a complex web of interventions that ultimately grapples with the COVID-19 pandemic, sovereign debt distress, and climate change, all at once. Navigating complexity must be the challenge of the time, which necessitates efforts tugging at different threads, with boldness and haste, while not losing sight of the dynamism of the big picture. The world desperately needs leadership from the currently hollowed-out institutions of international finance. (749 words)

## Notes

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<sup>i</sup> I take ‘polycrisis’ from Adam Tooze’s writing on the challenges we face in an interconnected world, though it was former European Union President Jean-Claude Juncker who first popularized the term.

<sup>ii</sup> Oxfam International, “COVID-19 death toll four times higher in lower-income countries than rich ones,” *Oxfam*, Mar. 3, 2022, <https://www.oxfam.org/en/press-releases/covid-19-death-toll-four-times-higher-lower-income-countries-rich-ones>.

<sup>iii</sup> Martin Wolf, “The looming threat of long financial COVID,” *Financial Times*, Feb. 15, 2022, <https://www.ft.com/content/7ddd7ae4-f310-4c8e-a3f3-054ed6e51250>.

<sup>iv</sup> See for instance: World Bank, “Pandemic Threatens Human Capital Gains of the Past Decade, New Report Says,” *World Bank*, Sep. 16, 2020, <https://www.worldbank.org/en/news/press-release/2020/09/16/pandemic-threatens-human-capital-gains-of-the-past-decade-new-report-says>.

<sup>v</sup> See for instance: William N Kring, “The failures of the G20’s Debt Service Suspension Initiative,” *East Asia Forum*, Sep 7. 2021, <https://www.eastasiaforum.org/2021/09/07/the-failures-of-the-g20s-debt-service-suspension-initiative/>.

<sup>vi</sup> Martin Wolf, “The looming threat of long financial COVID.”

<sup>vii</sup> Tooze makes this point in the context of the Netherlands here: Adam Tooze and Senna Maatoug, “We should approach this transition as an opportunity,” *Green European Journal*, Feb. 10, 2022, <https://www.greeneuropeanjournal.eu/we-should-approach-this-transition-as-an-opportunity-an-interview-with-adam-tooze/>.