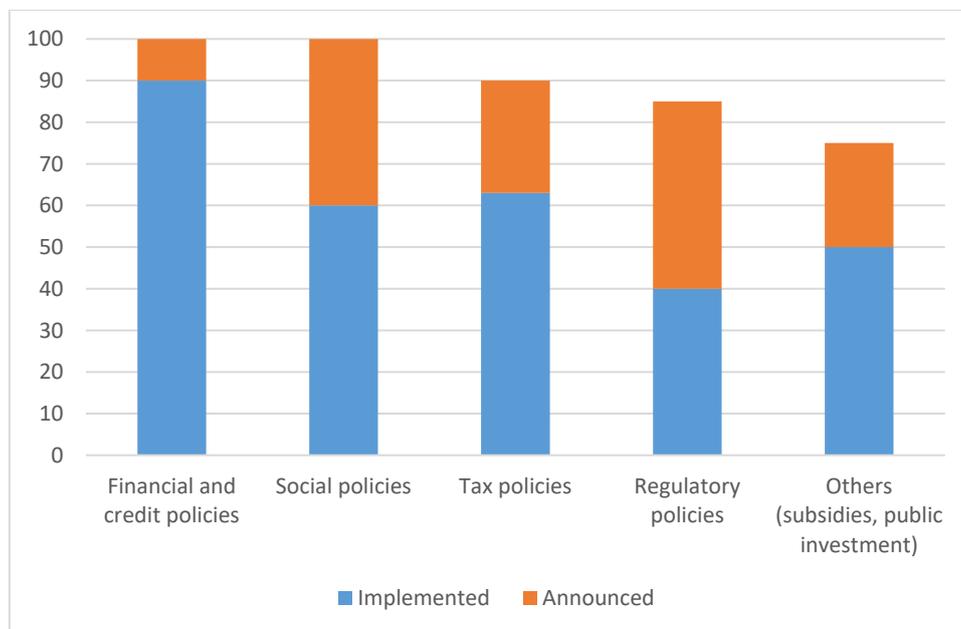


International cooperation in times of Covid 19: less disappointing than it appears

By [Bruno Cabrillac](#)

A pandemic is the type of challenges that can only be overcome by global action. Despite a pre-crisis context fraught with geopolitical and trade tensions, this necessary international coordination has been achieved in the economic field. However, the post-crisis phase will exacerbate conflicts of interest and constitute a "stress test" for multilateralism.

Chart 1. Measures taken by governments in response to the Covid 19 crisis (as a % of G20+ countries)



Source: IMF, April 2020.

Note: G20+ Spain; financial/credit policies: public loan guarantees, public loans, forbearance etc.; social policies: transfers to households; tax policies: tax cuts or rebates, extended payment deadlines, etc.; regulatory policies: price controls, employment, and trade restrictions.

A global shock, a shared diagnosis, similar national responses

On the face of it, the response to the health crisis was essentially national. Yet, the World Health Organization (WHO) played a key role. Thus, due to WHO recommendations but also to the endogenous effects of globalisation (diffusion of ideas, behaviour and policies), a large

number of countries put in place similar health response strategies. By mid-April, 4.5 billion people were confined.

As in the case of health measures, the responsiveness of multilateral institutions and fora in economic matters should be highlighted. On 16 March, [the G7 Heads of State](#) recognised that "the COVID-19 pandemic is ... a global health crisis, which also poses major risks for the world economy". On 26 March, the [Statement of the Extraordinary G20 Leaders' Summit G20](#) is even more explicit: "The unprecedented COVID-19 pandemic is a powerful reminder of our interconnectedness and vulnerabilities. The virus respects no borders. Combatting this pandemic calls for a transparent, robust, coordinated, large-scale and science-based response."

This consensus on the diagnosis goes hand in hand with a consensus on the treatment. The crisis must be addressed in all its aspects: "Tackling the pandemic and its intertwined health, social and economic impacts is our absolute priority" (G20). We must mobilise "all available policy tools " (G7) with "immediate and vigorous measures to support our economies; protect workers, businesses—especially micro-, small and medium-sized enterprises—and the sectors most affected; and shield the vulnerable through adequate social protection" (G20). Even more so than during the great financial crisis, the response has been universal: [the IMF website, which records, in real time](#), the measures taken, shows that almost all countries have put in place measures to support their economies.

Consensus on the diagnosis and the treatment facilitates de facto coordination of measures taken at the national level. The second section of the [G20 Action Plan](#), released on 15 April, addresses the emergency response to the crisis to support the economy. Almost everywhere, monetary policies have made a significant contribution to this support. As [Odendahl et al.](#) note, "Central banks have been very active in pursuit of their mandates, implementing within a month a variety of large-scale measures, a pace much quicker than in previous crises." The IMF also shows a high degree of convergence in both the nature and scope of measures (Chart 1) taken by governments.

Sceptics will note that this is more a question of ex-post consistency than ex-ante strategy. They will point out that while the virus "respects no borders", governments have considerably restricted the international movement of people. They will also object that the extent of this support varies considerably from one country to another, more so than during the great financial crisis. For example, according to the IMF at end-April, the fiscal stimulus package is estimated at 1% of GDP in India and 11% in the United States, while the Fed's action is much more vigorous than that of the Reserve Bank of India. However, on the one hand, this "automatic" convergence of national emergency measures is largely an effect of globalisation; on the other, health measures, in particular lockdown and containment measures have had different economic effects, calling for a differentiated response.

Aid to developing countries: a great effort of international solidarity

The third section of the G20 Action Plan outlines an unprecedented coordinated effort to help developing countries cope with this crisis. Multilateral development banks have

dedicated USD 200 billion to emergency financing. The IMF has eased the rules governing its financing, raising loans ceilings and speeding up commitments and disbursements. On 16 April it created a short-term instrument that is better suited to large and urgent external resource needs. These measures should enable the IMF to mobilize its USD 1 trillion lending capacity for countries in need of external resources. In addition, several countries, including France, have pledged to increase their contribution to the IMF Trust Fund, which finances loans to poor countries. The most emblematic measure of this effort is a time-bound suspension of debt service payments for the poorest countries from 1 May until the end of 2020, amounting up to approximately USD 35 billion. All major bilateral official creditors will participate in this initiative, thanks to an unprecedented agreement between the Paris Club and non-Paris Club members such as China and India. A total of 30 creditor countries have agreed to suspend payments for 77 of the poorest countries.

Regrettably, the general SDR allocation that would have enabled the distribution of SDR 500 billion in additional international liquidity (in 2009, an allocation of SDR 250 billion had been decided) was postponed due to opposition from the United States. It should also be noted that this solidarity effort is out of all proportion to the plans to support the G20 economies. Nevertheless, the speed and scale of this multilateral solidarity effort is unprecedented.

The crisis exit phase will be a "stress test" for international cooperation

The G20 Action Plan also includes a section designed to be scalable over the post-crisis phase, reaffirming that international coordination will be a key element of its success. However, the crisis exit phase will put international coordination to the test, as five factors lead to uncooperative behaviour.

- Countries will probably exit the crisis at different times.
- Governments will all be more indebted and to even more divergent extents: they will have increasingly different views on the need to improve the sustainability of public finances, as well as the timing and pace of doing it.
- The policies put in place are to a large extent designed to support the supply side, i.e. businesses; however, by their very nature, this type of support may be non-cooperative, in particular in a context of global overcapacity in certain sectors (e.g. steel) and controversy over business subsidies.
- The disruptions caused by the health crisis (on both the supply and demand sides), in addition to those caused by the energy transition and digitalisation, increase the need or temptation for national industrial policies.
- There are already profound differences in opinion on the "world after", in particular on the priority to be given to the fight against climate change or against inequalities.

In this context, exiting the crisis will be, much more than in 2009, a real "stress test" for multilateralism. The fact that the G20 Action Plan shows a desire for ex ante international coordination, albeit insufficient, is nevertheless a good sign.

Finally, the G20 Action Plan includes a section that proposes drawing lessons from the crisis to strengthen global governance and, in particular, the role of the G20. This section is not very ambitious, but at least it exists. We did not need this crisis to become aware that global governance had not kept pace with globalisation. However, the time lost should not mask the progress made by global governance, whose last two major steps, the Paris Agreement and the response to the Covid-19 crisis, should not be underestimated.