

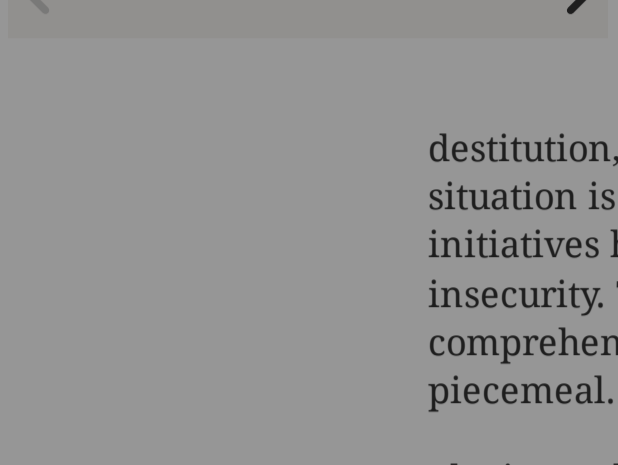


Managing the Megacrisis of 2022

Jul 19, 2022 | JOSÉ RAMOS-HORTA, DANILO TÜRK, LAURA CHINCHILLA, HAN SEUNG-SOO

On top of the COVID-19 pandemic and the increasingly disruptive effects of climate change, countries around the world are experiencing dangerous levels of food and energy insecurity and debt distress. And while the international community has taken some initial steps to address these problems, much more can and should be done.

EDINBURGH – At recent gatherings of G7 leaders, NATO members, and G20 foreign ministers, it was clear to everyone that the world is facing a confluence of emergencies unlike anything we have seen in decades. International tensions have risen to alarming heights on the back of increasing food and energy insecurity, depreciating currencies, looming debt crises, the ongoing COVID-19 pandemic, the intensifying effects of climate change, and armed conflicts.



America's Dangerous Descent into Violence

RICHARD K. SHERWIN attributes the rise in mass shootings to a politically motivated unraveling of sovereign authority.

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Previously a forum for tackling financial and economic problems, the G20, chaired by Indonesia this year, is being pushed into perilously sensitive terrain. The group's Leaders Summit in mid-November will be critically important; but we cannot wait until then to address today's intertwined crises. The G20 should launch a virtual (online) process to start working toward a common, coordinated response in advance of its November summit.

According to the World Food Program (WFP), more than 800 million people are now chronically hungry, with up to 323 million facing the prospect of starvation. Energy prices have soared, and COVID-19 continues to rage through the world's under-vaccinated populations (only 16.5% of people in low-income countries have been fully vaccinated). Moreover, some 60% of low-income countries are in debt distress, and communities around the world are experiencing droughts, floods, wildfires, and other symptoms of climate breakdown.

In April, UN Secretary-General António Guterres warned that today's confluence of crises "could throw up to 1.7 billion people – over one-fifth of humanity – into poverty, destitution, and hunger on a scale not seen in decades." But though the situation is perilous, we are not powerless to change it. Some multilateral initiatives have already been launched to address debt, energy, and food insecurity. To be effective, however, such efforts must be coordinated and comprehensive. Our problems are too interconnected to be addressed piecemeal.

The immediate priority is to ensure fair prices and secure supplies across food and energy markets. At least \$10 billion is needed to bridge the WFP's financing shortfall this year. So far, international institutions and many governments have responded to the food crisis with initiatives such as the Global Alliance for Food Security, which was launched this spring to coordinate humanitarian financing and investments in food-system resilience. And more than 80 countries have endorsed a US-led Roadmap for Global Food Security Call to Action, and there have been important regionally focused summits such as the Mediterranean Ministerial Dialogue on the Food Security Crisis and the Uniting for Global Food Security Ministerial Conference.

But even though it is well known that open trade is crucial to containing food insecurity, more than 20 countries have imposed restrictions on food exports (through export licenses, taxes, or outright bans). While World Trade Organization member states recently agreed to exempt the WFP's humanitarian purchases from export restrictions, that is not enough. We need to take full advantage of our knowledge of how the global food market operates both in the short and long run, and in terms of both supply and reserves.

To that end, major countries holding grain stocks in reserve should release them onto international markets to dampen further price increases; and governments should strengthen the Agricultural Market Information System (AMIS) to improve transparency and monitoring (including of futures markets) and to prevent speculation. We must ensure that more countries can build self-sufficiency through agricultural-import diversification and more resilient domestic production (where possible).

On energy, Italian Prime Minister Mario Draghi, US President Joe Biden, and others have discussed creating an oil-purchasing cartel to negotiate better prices; and there are many new initiatives to accelerate the deployment of renewable energy, improve energy efficiency, and reduce dependence on fossil fuels. But we need to pick up the pace in the run-up to November's United Nations Climate Change Conference (COP27) in Egypt.

For their part, the International Monetary Fund and the multilateral development banks can and must do more to provide relief from today's food, energy, and debt crises. Only one-quarter of the IMF's trillion-dollar balance sheet is currently committed to providing financial assistance and debt-service relief to struggling countries. Likewise, the World Bank could lend more, by negotiating a capital replenishment with its member states and by leveraging its triple-A credit rating to crowd in private capital with loan guarantees.

To address the looming debt crisis, we need a robust preemptive multilateral restructuring and relief initiative for developing countries with unsustainable debt burdens. The share of low-income countries in debt distress, or at high risk of it, has doubled from 30% to 60% since 2015. Making matters worse, many middle-income countries' credit ratings are being downgraded, which means that they will face higher debt-service costs, especially now that the US Federal Reserve and other major central banks are tightening their monetary policies.

New initiatives to alleviate debt distress will need to go much further than similar recent efforts did. The Debt Service Suspension Initiative (DSSI) that was launched early in the pandemic has since expired, after providing only \$13 billion in temporary relief to 48 low-income countries. Moreover, it covered only official bilateral creditors, thus excluding the private creditors who hold the largest share of developing-country debt.

Following the launch of the DSSI, the Common Framework for Debt Treatments was established to deal with sovereign insolvency and protracted liquidity problems in DSSI-eligible countries. It is supposed to provide debt relief and restructuring consistent with a debtor's essential-spending needs and capacity to pay, but, one and a half years after its inception, only three countries have signed up (Chad, Ethiopia, and Zambia), and none has successfully completed a debt restructuring.

With participation in the Common Framework currently limited to the 73 poorest countries, the eligibility criteria may need to be reviewed and expanded, and all creditors – including China and the private sector – will need to be incorporated into the process. Greater debt transparency is essential for effective sovereign-debt renegotiation. While securing Chinese participation may prove difficult, private-sector participation can be required by regulation, particularly in the United Kingdom and the United States, where there is already a precedent for this.

Finally, IMF surcharges (extra fees charged to highly indebted borrowing countries) should be suspended immediately. The number of countries incurring such costs has already risen from nine to 16 since the pandemic began, and the IMF projects that the total could rise to 38 by 2025.

We are facing an unprecedented confluence of crises that could gravely jeopardize our future. Once again, the world needs the G20 to step up and act with resolve.

This commentary is signed by: Philippe Aghion - Professor of Economics, Collège de France & London School of Economics; Maria Elena Agüero - Secretary General of Club de Madrid; Abdur-Rauf Al Ravabdeh - Prime Minister of Jordan (1999-2000) and President of the Senate (2013-15); Abdulaziz Al-Owajri - Former Director-General of ISESCO; Oscar Arias - President of Costa Rica (1986-90; 2006-10); Jan Peter Balkenende - Prime Minister of the Netherlands (2002-10); Kaushik Basu - President of the International Economic Association; Chief Economist of the World Bank (2012-16); Erik Bergljof - Professor at the London School of Economics and Head of Economics at AHB; Sali Berisha - President of Albania (1992-97) and Prime Minister of Albania (2005-12); Ana Birchall - Deputy Prime Minister of Romania (2018-19); Valdis Birkavs - Prime Minister of Latvia (1993-94); Patrick Bolton - Professor of Finance and Economics, Imperial College London; Professor, Columbia University; Kjell Magne Bondevik - Prime Minister of Norway (1997-2000; 2001-05); Gordon Brown - Prime Minister of the United Kingdom (2007-10); John Bruton - Prime Minister of the Republic of Ireland (1994-97); Robin Burgess - Professor of Economics, London School of Economics; Felipe Calderón - President of Mexico (2006-12); Michéline Calmy-Rey - President of the Swiss Confederation (2007-11); Kim Campbell - Prime Minister of Canada (1993); Fernando Henrique Cardoso - President of Brazil (1995-2003); Wendy Carlin - Professor of Economics, University College London; Hikmet Cetin - Minister of Foreign Affairs of Turkey (1991-94); Deputy Prime Minister (1995) and Speaker of the Grand National Assembly (1997-99); Joaquim Chissano - President of Mozambique (1986-2005); Helen Clark - Prime Minister of New Zealand (1999-2008); Sean Cleary - Chairman of Strategic Concepts; Marie-Louise Coleiro Preca - President of Malta (2014-19); Emil Constantinescu - President of Romania (1996-2000); Diane Coyle - Co-Director of the Bennett Institute for Public Policy, University of Cambridge; Rut C. 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