When North needs South

by Amitabh Kant and Siddharth Tiwari

It was only a decade ago that the words *Global South*conjured images of countries with low growth, financial instability, and weak governance. Having learned from past episodes of crisis, the same countries have now emerged as a bridge to the future for the global economy. The latest World Bank/IMF forecasts indicate that growth will hold steady at around 3 percent and most indicators point to central banks exiting from tight monetary policy and achieving a soft landing. The latest forecast for global growth 5 years from now – at 3 percent – is at its lowest in decades.

What is striking about these forecasts is that for the next 2-3 decades, nearly three-fourth of global growth will come from middle- and low income countries, with Asia leading the way as the world's most dynamic region.Without deep financial markets, the availability of sustainable financing will be a binding constraint for growth in the Global South—and by extension for global growth because the Global South attracts capital at prohibitive rates and at short tenure. It is in the interest of the Global North to support the growth potential of the Global South but the present international financial architecture is ill-suited to serve the Global South. That must change.

We are coming off decades of supportive geo-politics, demographics, globalization and advances in technology that resulted in a period of high growth but this has changed in the last few years for three reasons. One, as globalization deepened, safety nets in individual countries – retraining and skills education – did not keep pace with the accompanying displacement of livelihoods, thereby denting social cohesion and support for the multilateral system. Two, the tailwinds to global growth – expanding markets, trade, supply chains, financial globalization – were disrupted by the pandemic.Three, the war in Ukraine, worsening geopolitics, and the rise of strategic competition risks entrenching policy-driven fragmentation on top of this disruption.

Headwinds to growth emanating from several sources – climate change, cost of living crisis, out of reach SDG goals, declining productivity, absence of liquidity financing, a broken debt architecture – impact the Global South the most. While there are several areas to tackle, including the role of our multilateral institutions and redressing their outdated governance framework, there are three specific areas – in climate financing, liquidity provisions for the Global South, and a global architecture for the development of digital public architecture (DPI) – that can produce lasting sustainable wins for global growth.

Pre-pandemic, the promise of the digital revolution was widely discussed. Today – and especially its aftermath and with the surge in technological innovations including *Artificial Intelligence(AI)* – *the*integration of digital transformation in daily lives is now the focus. DPI has exploded at an exponential pace and will dominate the architecture of development going forward. The pandemic has demonstrated the power of DPIs. Countries with effective DPIs could provide emergency fiscal transfers to hundreds of millions; their health systems could support and coordinate vaccine deployment across large populations; their education systems could offer platforms for learning; and, their digital commerce platforms augmented by digital payment systems could blunt the worst ravages of the lockdowns. Those that did not, unfortunately, struggled.

The successful operation of several DPIs globally has shown that this approach and the underlying technology has matured and been stress-tested during the pandemic. It is being deployed more generally across a larger swathe of countries globally and with advances in AI it has the greatest potential to boost global growth and inclusion. The DPI architecture, nascent without clear institutional structures and siloed across sectoral platforms, emphasizes the need for a center and a firmer common structure to realize gains – and ensure data and cyber security – across what will be multiple usages. An international effort to bring together a coalition of the willing to organize its growth – along common high level principles, create a repository of best practices and provide a forum for sharing technical advances – would avert system wide incompatibilities.

As regards climate financing, several proposals envisage leveraging public and multilateral resources. A recent Bretton Woods Committee Report proposes a complementary approach to focus more forcefully on capital markets. Previous work done at the BIS has demonstrated that 1 percent of publicly listed companies are responsible for 40 percent of greenhouse gas emissions. Thus, could a focus on market based solutions provide significantly more financing (and impact) than the focus on public resources? Such a solution would entail three elements: (i) mandatory disclosure requirements applied globally for publicly listed companies and large state owned enterprises; (ii) a digital public infrastructure that translates data disclosed by companies into machine readable data; and (iii) new rating agencies that will rate corporates on the sustainability front. With reliable and consistent data, shareholders and civil society will be in a better position to channel their activism more efficiently. It will also provide the means for corporate board to develop effective long term plans for their organizations. In addition, large money managers will have the necessary data for them to act on their stated goals with respect to sustainability.

Simultaneously, multilateral institutions have a role to play to support this effort. Many international panels – including *the G20 Eminent Persons Group on Global Financial Architecture and the recent UN Secretary General's High Level Advisory Panel – have* noted that the global financial system is not providing financing at scale and in time to emerging markets which will provide the bulk of global growth for the next 20 to 30 years yet are subject to periodic shocks. For example, countries like India and Indonesia have no access to US dollar swap lines. In its absence, countries self-insure continually amassing large reserves which could have been used for other purposes. A strengthened and reformed IMF must lie at the center of this effort to provide liquidity significantly beyond what it offers now. Have systemic central bank swap lines undermined the role of the IMF? Should the IMF intermediate systemic central bank swap lines? How can IMF temporarily expand its balance sheet to meet large liquidity needs of its members? Should it borrow from the market that its legal framework allows it to do but it never has?

None of these answers are easy or simple, but each one is part of a transformational outcome and now is the time to take action.

Amitabh Kant is India's G20 Sherpa. Siddharth Tiwari is the former Executive Secretary of the G20 Eminent Persons Group on Global Financial Architecture.