

Discussion: “Goeconomic Challenges to the Policy Framework”, by Matteo Maggiori

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Conference “Monetary Policy, Financial Markets, and Challenges Ahead”

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Prepared with the help of Andrea Presbitero and Petia Topalova

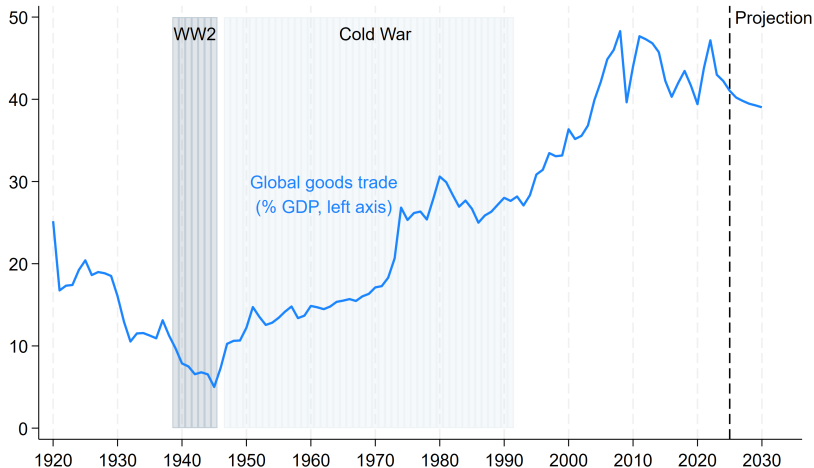
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My discussion

- **Fantastic workstream**, pushing the boundaries of our thinking about economic power in global politics, both from a theoretical perspective and with new (real-time) empirical evidence
- My discussion is structured along Matteo's lessons from geoeconomic theory:
 1. Are we entering a fragmentation doom loop?
 2. What does this mean for the International Monetary System?
 3. Is the Global Financial Safety Net sufficiently robust?
 4. What is the appropriate policy response for emerging markets?
 5. What is the role of the IMF?

**1. Are we entering a fragmentation
doom loop?**

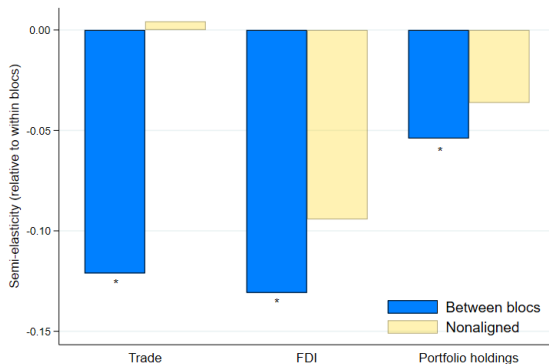
No evidence of de-globalization in aggregate data up until end-2024



Sources: Fouquin & Hugot (2016); CEPII; Gokmen (2017); Jordà, Schularick & Taylor Macrohistory Database; IMF World Economic Outlook; Trade Data Monitor.

Fragmentation 1.0: 2016-2024

Trade & investment flows fracturing along geopolitical lines

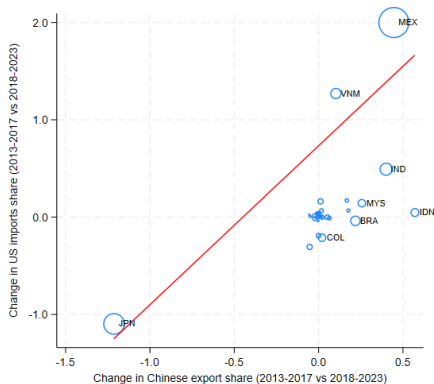


Notes: The chart plots the results of a gravity model where the dependent variable is: the bilateral trade in US dollars; the number of announced FDI projects; and the change in the share of portfolio assets. The bars illustrate the change in (semi-elasticity of) the dependent variable before and after Russia's invasion of Ukraine (2022:q1) between countries in opposite blocs (Between bloc) or between country pairs in which at least one country is nonaligned (Nonaligned), relative to countries in the same bloc (Within blocs). * denote statistical significance.

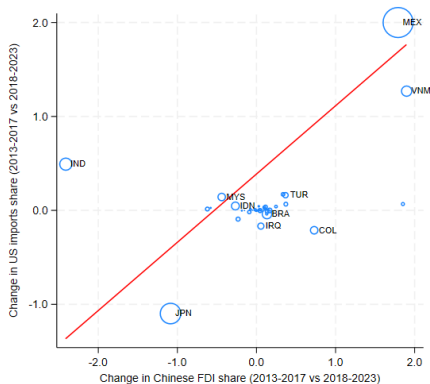
Source: Gopinath et al. (2025a).

Fragmentation 1.0: Connector countries linking rival blocs

Through Trade



Through FDI

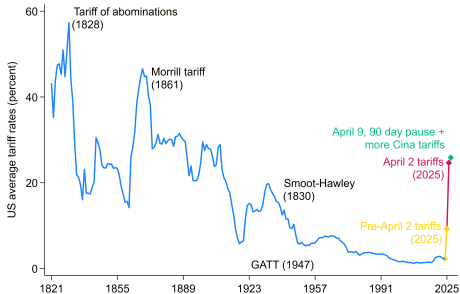


Notes: Both panels include only nonaligned countries. Panel A plots the change in U.S. import shares between 2018-23 and 2013-17 against the change in Chinese export shares over the same period. Panel B plots the change in U.S. import shares between 2018-23 and 2013-17 against the change in Chinese outward FDI over the same period.

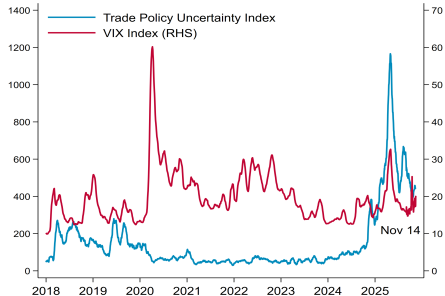
Sources: Trade Data Monitor; fDi Markets.

Fragmentation 2.0: Post Liberation Day Uncertainty

US Announced Average Tariff Rates



Trade Policy and Market Uncertainty

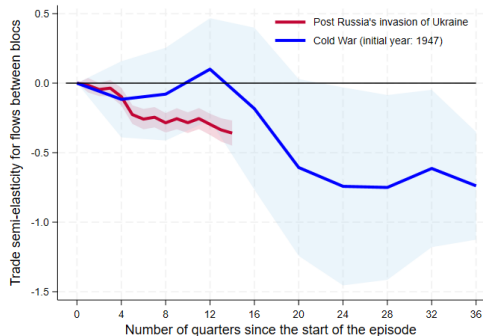


Notes: The pre-April 2 tariffs include 20 percent tariffs on China, 25 percent tariffs on steel and aluminum, 25 percent tariffs on Mexico and Canada. The tariff on Canadian energy imports is 10 percent. A USMCA carveout is assumed to halve the effective tariff increase for Mexico and Canada. The April 2 tariffs include auto sector tariffs and country-specific reciprocal tariffs applying exemptions provided in Annex II of the Executive Order per staff judgment. The April 9 tariffs include an increase in the tariff on China to 145 percent and a reduction in other country-specific tariffs to 10 percent. It also includes exemptions on some electronic products announced on April 11.

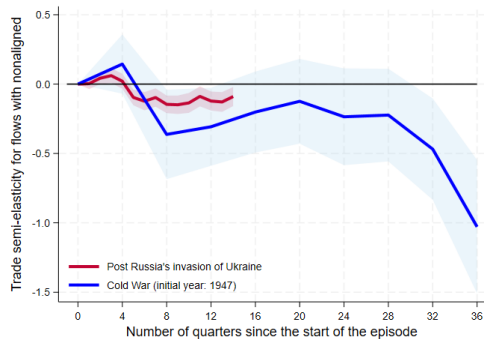
Source: Historical Statistics of the United States 1789 – 1945; PIIE; Refinitiv Eikon; IMF staff calculations.

Fragmentation 2.0: Trade is fragmenting, but nonaligned are still holding up

Trade between blocs



Trade with nonaligned countries

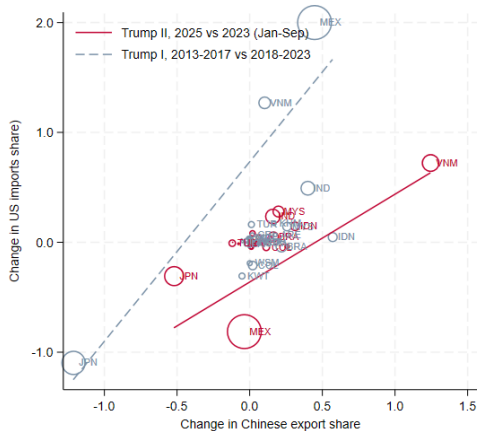


Notes: Results for the current period are up to 2025q1.

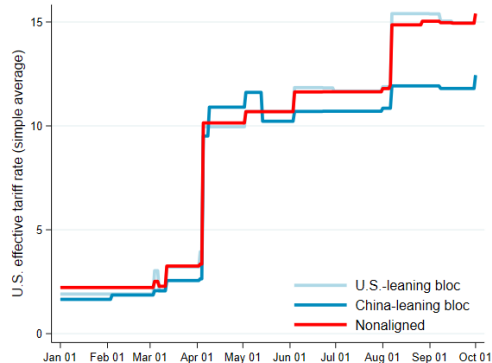
Source: Gopinath et al. (2025a), updated.

Fragmentation 2.0: Reallocation still happening but changing blocs

Reallocation of trade flows



Effective US tariffs and geopolitical blocs

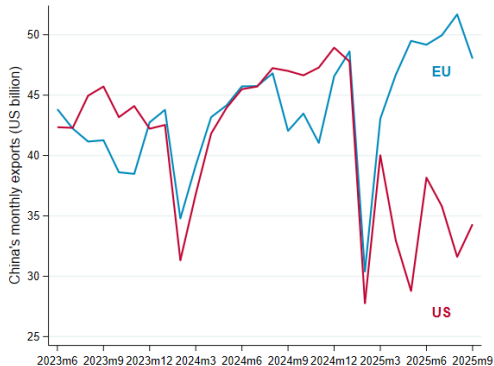


Notes: Effective US tariffs are effectively applied import duties.

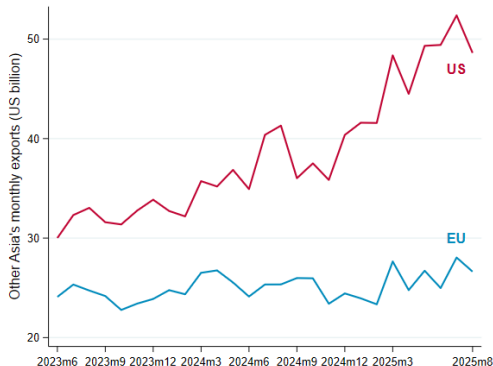
Source: WTO-IMF Tariff Tracker; Trade Data Monitor; Antras & Presbitero (forthcoming); Gopinath et al. (2025a), updated.

Fragmentation 2.0: A China shock 2.0 for Europe?

Chinese Exports



Other Asian Countries' Exports



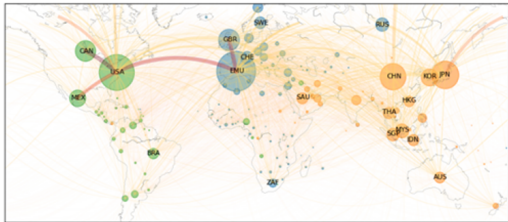
Notes: Other Asian countries include: Bangladesh, Cambodia, Hong Kong, India, Indonesia, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, and Vietnam.

Source: Trade Data Monitor.

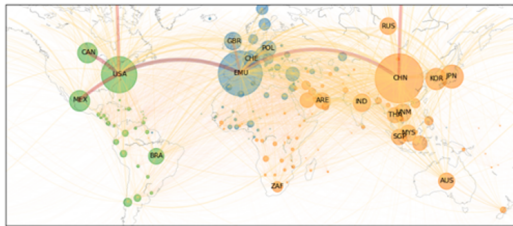
2. What does it mean for the International Monetary System?

New international trade 'poles' have emerged in the East

2001 Trade network



2023 Trade network

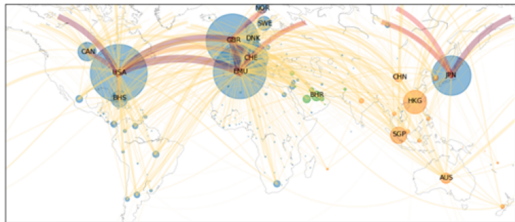


Notes: Exports network as of 2000 and 2023. The size of the nodes is proportional to their weighted degree (average of all bilateral imports and exports). The thickness of the arrows is proportional to the magnitude of bilateral exports. Three communities of nodes are detected and presented in different colors.

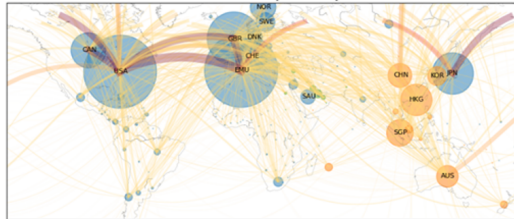
Sources: IMF External Sector Report 2025. See also Miranda-Agrippino et al. (2020).

Portfolio network centered around the West

2001 Portfolio investment network



2023 Portfolio investment network

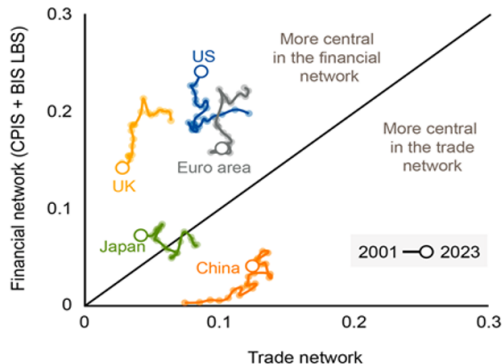


Notes: Portfolio investments network as of 2001 and 2023 (based on official IMF CPIS statistics). The size of nodes is proportional to their weighted degree (average of all bilateral assets and liabilities). The thickness of arrows is proportional to the magnitude of bilateral portfolio assets. Three communities of nodes are detected and presented in different colors.

Sources: IMF External Sector Report 2025. See also Miranda-Agripino et al. (2020).

Growing imbalance between trade and financial networks

Country centrality in trade and financial networks over 2001-2023



Notes: Measured by eigenvector centrality. Each dot represents annual value of the centrality measure of a country in trade and financial network. Eigenvector centrality measures the importance of the node give its size, number of connections, and importance of connections.

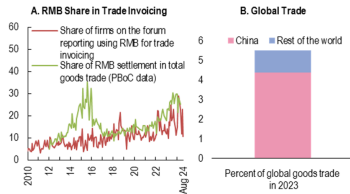
Source: IMF External Sector Report 2025.

Ongoing developments in the IMS

Rising concerns about geoeconomic fragmentation

1. Increasing RMB use in trade and finance, but levels still low
2. Softening of the United States' exorbitant privilege?
3. Cross-border payments and digital innovation

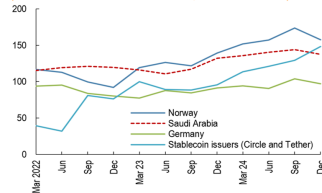
1. Use of Renminbi in International Trade
(Percent)



2. US Excess Returns on Gross External Assets and Gross Liabilities
(Percent)



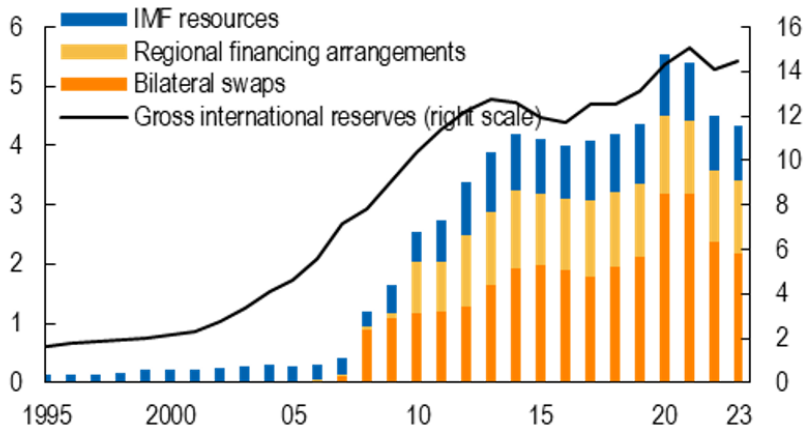
Figure 2.18. Holdings of US Treasuries
(Selected countries and stablecoin issuers, billions of US dollars)



- (a) Use of Renminbi in trade invoicing (b) US excess returns on gross external assets and liabilities (%) (c) Holdings of US Treasuries (USD bn)

3. Is the Global Financial Safety Net sufficiently robust?

Size and composition of the Global Financial Safety Net (USD trillions)

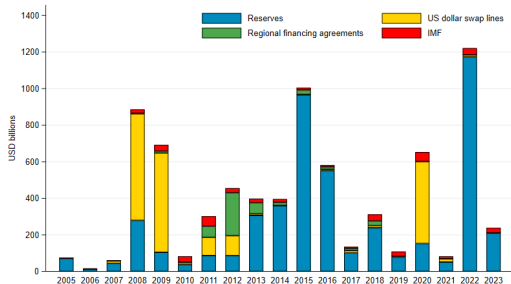


Notes: Data for BSAs includes swap lines with explicit limits; unlimited swaps are based on past usage or peers' maximum drawings. RFAs reflect lending capacity, committed resources, or estimates based on access limits and paid-in capital. IMF data corresponds to lending capacity (quota and borrowing for FTP countries, less prudential balances). Two-way arrangements are counted once.

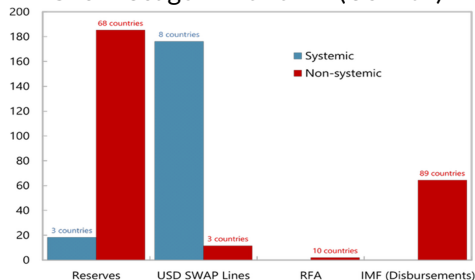
Sources: IMF External Stability Report 2025.

Deployment of the Global Financial Safety Net during recent crises

GFSN Drawdown since 2005



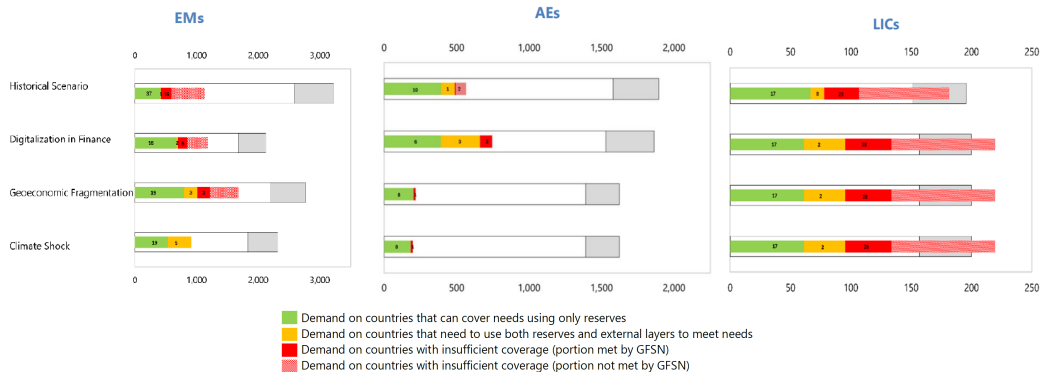
GFSN Usage in 2020-21 (USD bn)



Notes: The right panel presents combined usage of each GFSN layer in 2020 and 2021 by country group (systemic countries vs non-systemic countries). FX reserves usage is calculated as the aggregate year-on-year change in reserves for countries in which reserves declined (i.e., stripping out those countries in which reserves increased). Swap line usage (measured here for Fed swap lines only) refers to the sum of maximum single drawdowns by each central given bank in 2020 and 2021. RFA and IMF usage reflects gross disbursements.

Sources: IMF External Stability Report 2025 and IMF Staff Report, "The Global Financial Safety Net – A Stocktaking," October 2025.

Scenario Analysis: Demand and Available Supply Country-Level View (USD billions)



Note: Amounts exclude the EFNs of reserve issuers (USA, Euro Area, Japan, UK, China). However, the spillover effects of their EFNs through trade and financial linkages to other countries are included in Stage 2 of the simulations.

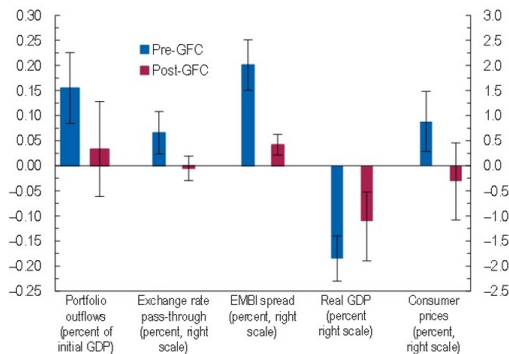
Source: IMF Staff Report, "The Global Financial Safety Net – A Stocktaking," October 2025.

4. What is the appropriate policy response for emerging markets?

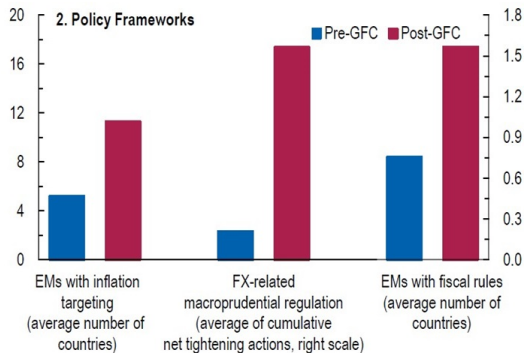
Strong policy frameworks are key for resilience amid global shocks

... but a fragmentation doom loop could put these frameworks to the test

Improved resilience to risk-off shocks



Improvements in policy frameworks



Sources: IMF World Economic Outlook 2025 (October, chapter 2).

5. What is the role of the IMF?

Question for Matteo

The hegemonic view of international organization: “These organizations are an expression of the hegemon that optimally commits to limit coercion to attract participation from other countries.”

What is the future of the IMF through the lens of the model?