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**Panel:** Global Financial Order After 2008 (RR)

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**Talking Points for:** Patrick Messerlin, Sciences Po

During the decade preceding the 2008 crisis, financial exuberance has created enormous distortions in the domestic economies of the industrial countries. It has over-developed some sectors and under-developed others. To eliminate all these distortions will require still a lot of time.

- The most visible illustration of over-developed sectors is of course housing. Much worse, building all these houses has been solidified in labor skills (carpenters, plumbers, etc.) that are inappropriate today in such large quantities and that are difficult to re-introduce into under-developed sectors. It is not easy and takes time to “recycle” carpenters into engineers.
- These distortions have often generated a host of inappropriate regulations: too much investment in solar mega-projects or in sophisticated solar panels in Spain or Germany, too generous collective insurance for glasses in France (300 millions of Euros per year), etc. All these regulations add to inertia.
- Regulatory (structural) reforms are thus much needed at a time when there is a lot of political fatigue with respect to them (the Reagan or Thatcher era is long gone). They are the growth engine indispensable for counter-balancing budgetary policies.

A slow recovery amplifies and dramatizes political conflicts. In this respect, the last year has been the year of the “ghosts of history”.

- The most recent, surprising and damaging ghost is the Crimea episode all the more because it happens in a continent which won the 2012 Peace Nobel Prize. But, add the intra-EU bitterness, Turkey, Syria, Mali, etc. Same for the US and of course in East Asia.

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- These ghosts are a huge diversion from the task of solving the above problems. They induce countries to think in terms of international conflicts (and to increase military spending) not in terms of inappropriate regulations generating or exacerbating domestic conflicts. For instance, the re-launch of the EU Internal Market in energy (still very imperfect) would be an action that would benefit enormously the EU consumers and, at the same time, would make Russia much more careful (by eroding more quickly the remnant of Gazprom’s market power and its rents) without being openly aggressive against Russia.
  - They divert from investments in sectors which are essential in the long run for the human kind but which have slow returns, such as water or climate change. They induce to under-invest in such sectors, hence increasing the risk of conflicts related to these issues, fuelling a vicious circle in terms of wrong investments.

Trade has a crucial role not for itself, but because it creates the pressures and incentives for domestic structural reforms that will be the basis of the new global economic order.

- Trade nurtures the sense of inter-dependency (that the ghosts try to ignore or destroy).
- Trade is pretty resilient. In 2008, there was a financial crisis, and then an economic crisis. But, there has been no trade crisis. This is because trade is based on two pillars: a light but so far strong enough multilateral regime; an intensive use of the potential of this trade regime by businesses via the “global value chains” (which did not exist in the pre-1914 years to such an extent).
- Trade is one of the best ways to promote domestic structural reforms. It is a bridge between the major economies which have a very different sense of the need of regulatory reforms:
  - “fatigue” or neglect in the US in terms of an international agenda as well as in terms of a domestic reform agenda.
  - the EU torn apart between its realization that it needs structural reforms and the difficulties to conceive them and to deliver them: the one step back taken

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by the Merkel II Germany (minimum wage, \*\*, etc.), the endless French procrastination, the British constitutional surrealistic fights, etc.

- would CJK be the core of the reform movement? Is there a convergence (or simply a realization that there could be some kind of convergence) between Chinese reforms, Japan’s third arrow, and Korea’s “regulatory reforms”?
- Trade is at its best when it is based on a non-discriminatory approach. Discrimination can easily fuel political conflicts. Unfortunately, the current political mood is not in favor of a multilateral approach to trade. The challenge thus is to create negotiating techniques that have a strong multilateral DNA despite the fact that there are negotiated in bilateral agreements (of course, I can elaborate a lot on this point—but I assume it will be too technical for a non-trade audience).

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