Panel: Global Financial Order After 2008 (RR)
Date/Time: Tuesday, April 22, 2014 / 17:30-18:45
Speakers: Philip Stephens, The Financial Times, Moderator
Kwon Goohoon, Goldman Sachs
Patrick Messerlin, Sciences Po
Benn Steil, Council on Foreign Relation
Zhang Jun, Fudan University

Rapporteur: Guillaume Darier, Seoul National University

Mr. Philip Stephens introduced the session by questioning whether the current recovery from the financial crisis had been in any way mirrored by an improvement in global governance. He expressed doubts that any architecture of global governance fitting the globalized economy after the crisis and regretted the complete loss of momentum for reform—especially from the G20.

The consensus in the financial community is that the global financial crisis has now receded, according to Dr. Kwon Goohoon. The United States is gaining momentum as growth accelerated in Q2, while Dr. Kwon was confident that the Chinese government should be able to maintain balance between structural reforms and its promise of 7 percent annual growth rate in the short run. Although financial markets favor developed economies and the Federal Reserve's tapering of its expansionary monetary policy have impacted emerging markets, Asia will remain the global growth driver in the long run due to its favorable demographics and above average savings rates. Dr. Kwon does not believe, however, that Asian countries will take over the global financial governance in the medium-to-long term. While income is growing in Asia, assets remain controlled predominantly by developed markets. Despite Asia's increasing capital stock, the imbalance between assets and income ensures that the US will maintain its dominant position in the global economy for the foreseeable future.

Prof. Messerlin warned that "financial exuberance" of the past 10-15 years, which induced many distortions into the global economy, had made regulatory and structural reforms now unavoidable. Deepening global trade is one necessary element, due to the ongoing impasse at the WTO. Prof. Messerlin believes new trade agreements are relatively inefficient as they only provide parties with marginal gains. Tariffs are not the main issue anymore—negotiations should focus on domestic regulations and other barriers to trade. Prof. Messerlin called for a different way of thinking and negotiating trade agreements, which accounts for the interests of developing and developed nations.

Dr. Steil focused on what he sees as the irony of the financial crisis: although it originated in the United States, the crisis elevated the outsized role of the United States in monetary and international affairs. The Fed's quantitative easing policy (QE) made massive short-term financing available to countries with very large current account deficits, allowing them to sustain structural imbalances. Dr. Steil argued that Mr. Bernanke's May announcement of future QE tapering had actually precipitated events in Ukraine. News of a potential tapering massively impacted emerging bond markets, making it impossible for Ukraine to continue rolling over its debt and prompting President Yanukovych to accept a bailout from Russia. Dr. Steil believes Mr. Yanukovych would still be in office today had Mr. Bernanke delayed his announcement by a year.

According to Dr. Steil, the Fed leadership was well aware in 2008 of how the financial crisis had become global, but rather than preventing its spread, it took measures to avoid any external shock to the United States. The Fed thus only authorized temporary swap lines with central banks of countries considered systemic to the financial order and capable of financial retaliation against the United States.

According to Dr. Zhang Jun, China saw the financial crisis as an opportunity to push the renminbi (RMB) forward as a new reserve currency. The Chinese monetary authority concluded currency swaps with numerous trading partners, while the new Shanghai Free Trade Zone (FEZ) will promote financial liberalization and crossover investment. Dr. Jun doubts the RMB will become one of the three major currencies by 2030 however, as the government is keen on carefully handling the process of RMB internationalization. Capital account liberalization is a prerequisite but China is likely to resist taking this step since it would require full foreign access to the Chinese financial system, which is not strong enough to sustain such a paradigm shift in the short run. The RMB will internationalize but China must find the right schedule to making this move possible.