19 World Scientific Studies in International Economics

THE World Economy after the Global Crisis

A New Economic Order for the 21st Century

Editors

Barry Eichengreen

Bokyeong Park

KIEP Korea Institute for International Economic Policy

World Scientific

The World Economy after the Global Crisis

A New Economic Order for the 21st Century

Editors

Barry Eichengreen
University of California, Berkeley, USA

Bokyeong Park
Korea Institute for International Economic Policy, Korea

KIEP Korea Institute for International Economic Policy

World Scientific

Published by

World Scientific Publishing Co. Pte. Ltd.
5 Toh Tuck Link, Singapore 596224
USA office: 27 Warren Street, Suite 401-402, Hackensack, NJ 07601
UK office: 57 Shelton Street, Covent Garden, London WC2H 9HE

Library of Congress Cataloging-in-Publication Data
The world economy after the global crisis : a new economic order for the
21st century / edited by Barry Eichengreen & Bokyeong Park.
p. cm. -- (World scientific studies in international economics, ISSN 1793-3641 ; v. 19)
Includes bibliographical references and index.
ISBN-13: 978-9814383035
ISBN-10: 9814383031
1. Global Financial Crisis, 2008–2009. 2. Economic history--21st century.
I. Eichengreen, Barry J. II. Pak, Pog-yong.
HB3722.W673 2012
330.9--dc23

2012005344

British Library Cataloguing-in-Publication Data
A catalogue record for this book is available from the British Library.

Copyright © 2012 by World Scientific Publishing Co. Pte. Ltd.

All rights reserved. This book, or parts thereof, may not be reproduced in any form or by any means, electronic or mechanical, including photocopying, recording or any information storage and retrieval system now known or to be invented, without written permission from the Publisher.

For photocopying of material in this volume, please pay a copying fee through the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, USA. In this case permission to photocopy is not required from the publisher.

In-house Editor: Alisha Nguyen

Typeset by Stallion Press
Email: enquiries@stallionpress.com

Printed in Singapore by World Scientific Printers.

Acknowledgments

This book has its origins in a research project initiated by the Korea Institute for International Economic Policy (KIEP), Korea's leading think tank. It was organized with the goal of analyzing changes in the world economy since the global financial crisis from a variety of economic, functional and analytical perspectives. The editors would like to thank KIEP for its financial support, which was essential to completion of the project and publication of this book.

The Korea Institute for International Economic Policy (KIEP) was founded in 1989 as a government-funded independent economic research institute. KIEP carries out research on the East Asian economies various aspects of world economy, such as international finance, open macroeconomics, trade and investment. KIEP advises the government on all major international economic policy issues.

Contributors

Ignazio Angeloni is Advisor to the Executive Board of the ECB and Visiting Fellow of Bruegel, the Brussels think tank. Previously he was Director for International Financial Affairs at the Ministry of Economy and Finance of Italy, in which position he was also a member of the G20 Deputies. Before that, he was Deputy Director General of Research at the European Central Bank and Director of Monetary and Financial Research in the Bank of Italy. He holds a PhD from the University of Pennsylvania and a Bachelor's degree from Bocconi University.

His research focuses on monetary policy issues, the links between financial stability and monetary policy and European monetary and financial integration. He is the author of books and of articles that have appeared in top US and European academic journals.

Barry Eichengreen is George C. Pardee and Helen N. Pardee Professor of Economics and Political Science at the University of California Berkeley. He is Research Associate of the National Bureau of Economic Research and Research Fellow of the Centre for Economic Policy Research.

His most recent books are *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System* (2011), *Emerging Giants: China and India in the World Economy*, co-edited with Poonam Gupta and Ranjiv Kumar (2010), *Labor in the Era of Globalization*, co-edited with Clair Brown and Michael Reich (2009), *Institutions for Regionalism: Enhancing Asia's Economic Cooperation and Integration*, co-edited with Jong-Wha Lee (2009), and *Fostering Monetary & Financial Cooperation in East Asia*, co-edited with Duck-Koo Chung (2009). Other books include *Globalizing Capital: A History of the International Monetary System*, Second Edition (2008), *The European Economy Since 1945: Coordinated Capitalism and Beyond* (updated paperback edition, 2008), *Bond*

试读结束：需要全本请在线购买： www.ertongbook.com

Markets in Latin America: On the Verge of a Big Bang?, co-edited with Eduardo Borensztein, Kevin Cowan, and Ugo Panizza (2008), and *China, Asia, and the New World Economy*, co-edited with Charles Wyplosz and Yung Chul Park (2008).

Simon J. Evenett is Academic Director of MBA programmes at the University of St. Gallen, Switzerland, where he is Professor of International Trade and Economic Development in the Department of Economics. He is also Programme Director of the International Trade and Regional Economics Programme of the Centre of Economic Policy Research. Professor Evenett is an expert in the commercial policies and strategies of the US, EU, and rising economic powers such as China. He has published over 125 journal articles, book chapters, and books and is a frequent public lecturer, including speaking to corporate executives about international business strategy. Professor Evenett also coordinates the worldwide protectionist monitoring service, Global Trade Alert.

Joseph E. Gagnon is Senior Fellow of the Peterson Institute for International Economics since September 2009. He was Visiting Associate Director, Division of Monetary Affairs (2008–2009) at the US Federal Reserve Board. Previously he served at the US Federal Reserve Board as Associate Director, Division of International Finance (1999–2008), and senior economist (1987–1990 and 1991–1997). He has also served at the US Treasury Department (1994–1995 and 1997–1999) and has taught at the University of California's Haas School of Business (1990–1991). He is author of *Flexible Exchange Rates for a Stable World Economy* (2011) and *The Global Outlook for Government Debt Over the Next 25 Years: Implications for the Economy and Public Policy* (2011). He has published numerous articles in economics journals, including *Journal of International Economics*, *Journal of Monetary Economics*, *Review of International Economics*, and *Journal of International Money and Finance*, and has contributed to several edited volumes.

Marc Hinterschweiger has been a Research Analyst with the Peterson Institute since 2008. He is also PhD candidate in economics at Ludwig-Maximilians University (LMU) in Munich, Germany. His research focuses on the transmission mechanism of monetary policy, asset prices, and financial crises. He previously worked at the Rhenish-Westfalian Institute for Economic Research (RWI) in Essen, Germany. He assisted

Joseph E. Gagnon with *Flexible Exchange Rates for a Stable World Economy* and *The Global Outlook for Government Debt over the Next 25 Years: Implications for the Economy and Public Policy* (2011).

Jinill Kim is Professor of Economics at Korea University, where he has taught since 2010. Dr. Kim received his B.A. in Economics from Seoul National University in 1989 and his Ph.D. in Economics from Yale University in 1996. After working as Economist in the Division of Research and Statistics at the Federal Reserve Board for two years, he became an Assistant Professor at the University of Virginia in 1998. He returned to the Federal Reserve Board in 2003 and served as Economist and Senior Economist in the Monetary Affairs Division until 2011.

Bokyeong Park is Director of the International Economy Department at the Korea Institute for International Economic Policy (KIEP). He has conducted research on international finance and development cooperation at KIEP since 2002. He was a visiting scholar at UC Berkeley and Johns Hopkins University. While working at KIEP, he has also served as a member of advisory committees for the Presidential Office and the Ministry of Foreign Affairs and Trade of Korea. He received his B.A. and Ph.D. in Economics from Seoul National University.

Eswar S. Prasad is Tolani Senior Professor of Trade Policy and Professor of Economics at Cornell University. He is also Senior Fellow at the Brookings Institution, where he holds the New Century Chair in International Economics, and Research Associate at the National Bureau of Economic Research. He was previously chief of the Financial Studies Division at the IMF and before that head of the IMF's China Division. He is a member of an Advisory Committee to India's Finance Minister and Lead Academic for the International Growth Center's India Growth Research Program. He has testified before various US Congressional Committees at hearings on China. He is the creator of the Brookings–Financial Times Global Economy Index (Tracking Indicators for the Global Economy; www.ft.com/tiger). He is also Research Fellow at IZA (Institute for the Study of Labor, Bonn) and Research Associate of the National Asia Research Program.

Nicolas Véron is Senior Fellow at Bruegel, the Brussels-based international economy think tank, and Visiting Fellow at the Peterson Institute for International Economics in Washington DC. His research focuses on

financial systems and regulation, including current developments in the European Union. He has been involved in the creation and development of Bruegel since 2002 and has divided his time since 2009 between Washington DC and Europe. A graduate of France's Ecole Polytechnique and Ecole des Mines, his earlier experience combines policy work as a senior French civil servant, and corporate finance as a junior investment banker, CFO of a small listed company, and independent strategy consultant. In 2006, he co-authored *Smoke & Mirrors, Inc.: Accounting for Capitalism*, and is also the author of several books in French. He writes a monthly column on European finance that is published by leading newspapers and online media in most G20 countries.

Contents

Acknowledgments v

Contributors xi

Chapter 1. Introduction **1**

Chapter 2. Financial Reform after the Crisis **7**

1 Introduction 7
2 The Dynamics of Financial Reform 9
2.1 The G20 10
2.2 The IMF and the FSB 12
2.3 Individual jurisdictions 13
2.4 Crisis-induced shifts 15
3 Challenges and Outlook 18
3.1 Ongoing crisis management 19
3.2 Macroprudential approaches 21
3.3 Regulating multinational financial firms 23
3.4 Consistent implementation of global standards 24
3.5 Financial systems and growth 25
References 26

Chapter 3. Did WTO Rules Restrain Protectionism During the Recent Systemic Crisis? **29**

1 Introduction 29
2 Twenty-First Century Protectionism During a Systemic Financial Crisis: Some Preliminary Considerations 32
3 The Resort to Discrimination Against Foreign Commercial Interests Since the First Crisis-Era G20 Summit in November 2008 40

4 An Assessment of the Impact of WTO Rules During the Recent Systemic Crisis 65
5 Concluding Remarks 73
References 74

Chapter 4. The International Monetary System after the Financial Crisis 77
1 The Global Reserve System 79
2 The Emergency Provision of Liquidity 85
3 Regulating Capital Flows 90
4 The Role of the IMF 93
5 Conclusion 97
References 98

Chapter 5. The Group of 20: Trials of Global Governance in Times of Crisis 101
1 Benefits from International Coordination: Reviewing the Arguments 104
2 A Narrative of the G20 in Times of Crisis 106
2.1 Washington (November 2008) 106
2.2 London (April 2009) 109
2.3 Pittsburgh (September 2009) 111
2.4 Toronto and Seoul (June and November 2010) 113
2.5 Cannes (November 2011) 117
3 Scoreboards of Success 121
4 Taking Stock and Looking Forward 124
References 127

Chapter 6. Emerging Markets in the Aftermath of the Global Financial Crisis 129
1 Introduction 129
2 Rising Prominence of EMEs 131
3 The Distribution of World Growth 136
4 What Explains the Resilience of Emerging Markets? 140
5 Global Public Debt and Implications for the Growth Gap 143
6 Risks 147
7 Concluding Remarks 149
References 150

Chapter 7. Challenges for Emerging Asia **153**

1 Introduction: Asia's Recovery from the Global Financial Crisis 153
2 Transition from Exports to Domestic Demand . . . 157
3 Killing the Inflation Dragon 160
4 Risk of the Middle Income Trap 162
5 The Rise of China and the Future of Regional Cooperation 167
6 Conclusion 169
References 170

Chapter 8. Long-Term Challenges for the Advanced Economies: Reducing Government Debt **173**

1 Introduction 173
2 Projected Paths of Government Debt 175
2.1 General government primary balances 175
2.2 Size of economies (GDP) 177
2.3 Interest rates 177
2.4 Baseline debt projections 178
2.5 The optimistic and pessimistic health care cost scenarios 184
2.6 Two interest rate scenarios 185
2.7 The optimistic growth scenario 186
2.8 The pessimistic growth scenario 187
2.9 Implications of net debt projections 188
3 The Burden of Debt and Fiscal Limits 188
3.1 Effect of debt on interest rates and interest payments 189
3.2 The limits of debt 192
3.3 Fiscal crises 196
4 Paths to Safety 200
4.1 Gradual (early) adjustment 202
4.2 Abrupt (delayed) adjustment 203
4.3 Benefits of early and gradual adjustment . . . 204
5 Conclusion 204
References 205

Index **209**

试读结束：需要全本请在线购买： www.ertongbook.com

CHAPTER 1

Introduction

Barry Eichengreen and Bokyeong Park

The global credit crisis of 2008–2009 was the most serious shock to the world economy in 80 years. It was for the world what the Asian crisis of 1997–1998 had been for emerging markets: a profoundly alarming wake-up call. By laying bare the fragility of global markets, it raised troubling questions about the operation of the 21st century world economy. It cast doubt on the efficacy of light-touch financial regulation and, more generally, on the prevailing commitment to economic and financial liberalization. It challenged the managerial capacity of institutions of global governance. It augured a changing of the guard, pointing to the possibility that the economies that had been leaders in the global growth stakes in the past would no longer be leaders in the future.

Given that the 2008–2009 crisis was first and foremost a *financial* crisis, it is appropriate that analysis should start in Chapter 2 with Nicolas Véron's assessment of the causes of recent financial problems and the successes and failures of post-crisis financial reform. The mainstream narrative emphasizes impetuous deregulation in advance of the crisis and a swing back to re-regulation in its wake. Véron offers a more nuanced view: he argues that the traditional separation of macroeconomic and financial policies — the "Tinbergen principle" of assigning monetary policy to the maintenance of price stability and regulatory policy to financial stability — is part of what caused the crisis, and that the development of a synthesis, which flies under the flag of "macroprudential" or "macrofinancial" policy, points the way to a solution.

But the devil is in the details. How exactly macroeconomic and financial policies should be harmonized to ensure financial stability without

undermining the efforts of the monetary-policy authorities to hit their price-stability target remains to be determined. The question of how to regulate and, in the worst case, resolve large cross-border financial firms has barely been touched. The international coordination of financial reform has been inadequate; with different countries and regions adopting different approaches, there is the danger of conflicts leading to fragmentation of the global financial space — in other words, there is a risk that the fruits of financial globalization, such as they are, will be lost. Finally, and most importantly, the implications of new regulations and procedures for economic growth remain imperfectly understood.

Another striking aspect of the crisis was the abrupt collapse of international trade, which declined even more than the production of goods and services. Why the impact on trade was so dramatic continues to be debated. There was the collapse of the demand for consumer durables, which bulk large in international transactions. There were disruptions to the supply of trade credit. There was the growing importance, by the standards of the past, of far-reaching and often fragile international supply chains.

Then there was the protectionist response, described by Simon Evenett in Chapter 3. A few governments responded to the crisis and recession with overtly protectionist policies, but more important, Evenett's data suggest, was "murky protectionism" defined to include not simply import tariffs, quotas and export taxes but also subsidies, bailouts, preferential public procurement practices, and other policy supports only indirectly related to trade. The good news, such as it is, is that only 11 nations implemented discriminatory measures covering more than a quarter of the possible product categories. This is in contrast to the Great Depression, when many countries imposed barriers on imports across the board.

Multilateral disciplines, notably those to which governments commit when becoming members of the World Trade Organization (WTO), are widely cited as preventing countries from resorting to a protectionist response. Evenett questions this contention. While no country violated its tariff bindings at the WTO, governments in fact resorted to a variety of other discriminatory measures that were not, in practice, covered by WTO disciplines. Evenett suggests that other factors, such as the opposition of multinational firms to measures that augured disruptions to trade, were a more important source of restraint in practice. Still, if WTO disciplines are not as effective as typically assumed, then the multilateral trading system may not be as robust as the conventional wisdom would have it. Evenett

concludes by warning that prudent policy makers should prepare for this possibility.

The global crisis also deepened disenchantment with the structure and operation of the international monetary system. It was already a commonplace that a system in which the US dollar enjoyed the "exorbitant privilege" of providing the vast majority of global foreign exchange reserves was dangerously prone to imbalances. The crisis then highlighted these risks. Official foreign purchases of US treasury and agency securities, by central banks and governments seeking to accumulate reserves, rendered US treasury rates lower than they would have been otherwise and thereby contributed to Federal Reserve Chairman Greenspan's famous bond-market "conundrum." Low treasury rates encouraged investors, stretching for yield, to move into riskier instruments. This fueled the housing boom and the securitization market, permitting the US to crawl further out on an unstable financial limb. Then, in the ultimate injustice, the dollar actually strengthened when the crisis struck, as foreign central banks and governments desperate for liquidity scrambled into dollar-denominated assets.

While this much is clear, less obvious is how to remake the system to avoid such problems in the future. In Chapter 4, Barry Eichengreen sketches likely future trajectories for international monetary arrangements. He is dismissive of far-reaching reforms ranging from a regime based on Special Drawing Rights on the one hand to restoration of a gold-based system on the other. But he is equally skeptical about the viability of a dollar-centric monetary system like that of the recent past. The remaining option being a system organized around several national currencies — not just the dollar but also the euro and the Chinese renminbi — the question then becomes how to ease the transition to such a system and to smooth its operation when it arrives. Eichengreen concludes that reforms of national policies, of multinational institutions like the International Monetary Fund (IMF) and of regional arrangements all will be needed in order to achieve this.

Among the notable long-term consequences of the crisis has been the emergence of the Group of Twenty (G20) as the de facto steering committee for the world economy, displacing earlier advanced-country-centered groupings, notably the Group of Seven/Eight (G7/8). When with the collapse of private demand it became necessary to organize a coordinated fiscal response, it was clear that a group in which emerging markets like China were not represented would not do. The emergence of the G20, which better reflects the composition of the 21st century world economy, was one

concrete consequence of the crisis. In a structural sense, it was also perhaps policy makers' most important achievement.

But, institutionally, the G20 remains a work in progress. As Ignazio Angeloni explains in Chapter 5, it has no permanent staff or written constitution. It has no global mandate; why it includes the countries it does reflects the particular historical process out of which it emerged. The details of how the G20 will work with multilateral organizations such as the IMF and Financial Stability Board when additional problems arise remain to be determined.

Angeloni argues that the G20 would be strengthened by measures to enhance its legitimacy; its membership could be harmonized, for example, with that of the Executive Board of the IMF. More could be done to ensure continuity as the chairmanship rotates from one country to another, by inter alia establishing a multi-year work program and a permanent steering committee and secretariat. Most of all, the G20 requires a shared vision of what needs to be done to stabilize and strengthen the functioning of the world economy. At the time of writing, consensus on the important issues of substance — such as reform of the international monetary system, of which Eichengreen writes in Chapter 4 and which putatively dominated the work program of the G20 in 2011 — is notable by its absence.

As the growing prominence of the G20 reveals, another consequence of the crisis has been to enhance the weight of emerging markets in the global economy. Their economies held up best in the face of the shock, and they continue to grow robustly. Eswar Prasad in Chapter 6 marshals a number of indicators showing just how fast the emerging markets of East Asia, South Asia, Latin America and Africa have grown and how importantly they now figure in the world economy.

At the same time, as Prasad explains, these countries face serious challenges in the post-crisis environment. Stagnation in the advanced countries is a challenge for their traditional strategy of export-led growth. Very different economic conditions in emerging and advanced-country regions imply different monetary and financial policies, in turn producing large and disruptive capital flows. As emerging markets as a group become large relative to the world economy, their policies become even more important determinants of global economic outcomes. Hence, the governments of what are still relatively poor economies will have to acknowledge and act on the fact that they have effectively become stewards of the world economy.

Where Prasad considers emerging markets, broadly defined, Bokyeong Park and Junill Kim in Chapter 7 focus more closely on the challenges

facing the emerging markets of East Asia in particular. The global crisis of 2008–2009 and, more recently, financial turmoil in Europe had relatively little impact on East Asia's fast-growing economies. To be sure, the region saw an abrupt decline in exports in 2009, but the substitution of domestic demand in the form of government spending and, in the Chinese case, bank lending to the construction sector helped keep growth going in the face of this external-sector weakness. Asian countries had limited exposure to the subprime market in the US, and they had accumulated ample reserves which they could now deploy to keep imports flowing. Aside from a few cases like South Korea, where banks had substantial offshore foreign currency exposures, the temporary shortage of dollar liquidity had little impact on their financial markets. The emerging markets of East Asia, it was increasingly asserted, had successfully decoupled from the advanced-country world.

Park and Kim ask in their chapter whether this will remain the case going forward. As global liquidity strains rose again in the latter part of 2011, a number of East Asian currencies weakened substantially, highlighting the region's continuing dependence on external financial conditions. International reserves, having risen steadily, reversed direction as central banks intervened to support their exchange rates. China, having ramped up bank lending in 2009 and encouraged local governments to borrow, now has less capacity to respond to additional shocks, given heavier debts and the prospect of nonperforming loans going forward. The inflation associated with previous policies of stimulus is, increasingly, a problem. All this heightens the urgency of rebalancing from foreign to domestic demand as a way of reducing the vulnerability of East Asia's emerging markets to external shocks. This in turn makes it disturbing that most of the region's economies, and above all China, have not moved faster to develop their financial markets, strengthen the domestic safety net, and permit the exchange rate to strengthen faster and fluctuate more freely.

But if the challenges that emerging markets will face in the new post-crisis environment will be formidable, they pale in comparison with those that will confront the advanced economies. The advanced economies as a group emerged from the crisis with large budget deficits and heavy debts. Winding down those deficits without derailing recovery and damaging the prospects for growth will not be easy. Deleveraging by households raises doubts about whether consumer demand will be able to substitute for public demand as fiscal consolidation proceeds. All this takes place against a gloomy demographic backdrop that implies rising old-age dependency

ratios, heavy pension obligations and health-care costs, and a declining share of the population participating in the labor force.

Joseph Gagnon and Marc Hinterschweiger take up these issues in Chapter 8. They frame their analysis around a number of distinctions. In the short run, there is the distinction between the countries of Southern Europe that face severe immediate fiscal challenges and other advanced countries that still enjoy low interest rates. In the medium term, there is the distinction between countries with more and less favorable demographic outlooks, which in turn point to different prospects for the growth of health-care and pension costs. But, notwithstanding these differences, medium-term fiscal challenges are daunting across the advanced-country world. Under any plausible projection of the evolution of macroeconomic variables, current policies are not sustainable. Difficult decisions are unavoidable.

Gagnon and Hinterschweiger acknowledge the existence of major uncertainties clouding the forecast. Prominent among them are the likely future cost of health-care technology and the scope for delivering health services more efficiently. Also uncertain are the appetite of investors for government bonds and the future path of interest rates. Finally, there is uncertainty about the pace of growth in the advanced economies — about whether that capacity has been permanently impaired by the financial crisis and about whether technical change has been slowed by a "Great Stagnation." But even under optimistic assumptions, current policies, if maintained will result in the explosive growth of public debt and, sooner or later, fiscal crises.

The authors chart a number of paths along which debt-to-GDP ratios stabilize at sustainable levels and crises are averted. The requisite adjustments are straightforward in economic terms: they involve a combination of reduced discretionary spending, increases in current revenues, and reductions in the growth of health-care and pension costs. But timing is everything; Gagnon and Hinterschweiger show that adjustment costs are substantially lower when that adjustment is initiated early than if it is delayed. And the politics, unquestionably, are fraught.

The global financial crisis has cast a long shadow. It has profoundly affected advanced economies, emerging markets and the balance between them. The implications for international trade, the monetary and financial system, and global governance are far reaching. Drawing out those implications and beginning to comprehend what they mean for the future is the task we take up, collectively, in this volume.

试读结束：需要全本请在线购买： www.ertongbook.com