

• G L O B A L F I N A N C E S E R I E S •



# Governing Global Finance

New challenges,  
G7 and IMF contributions

Edited by  
**Michele Fratianni**  
**Paolo Savona**  
**John J. Kirton**

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# GOVERNING GLOBAL FINANCE

# Global Finance Series

Edited by

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The intensifying globalisation of the twenty-first century has brought a myriad of new managerial and political challenges for governing international finance. The return of synchronous global slowdown, mounting developed country debt, and new economy volatility have overturned established economic certainties. Proliferating financial crises, transnational terrorism, currency consolidation, and increasing demands that international finance should better serve public goods such as social and environmental security have all arisen to compound the problem.

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# Preface and Acknowledgements

This book is the first in Ashgate Publishing's new Global Finance series. It continues a tradition, begun in 1998 with the G8 and Global Governance series, of using the annual G8 Summit as a catalyst for edited volumes that explore the central themes in the emerging dynamic of global governance. The current volume is the fourth occasion from the two series that takes a close look at the field of international finance. The continuing and compounding need for the global community to combat financial crises, generate global growth, confront deeper structural issues, and create a new international financial architecture in an era of intense globalisation has inspired both this volume and the new series that it inaugurates.

The first book dealing with international finance was *The G8's Role in the New Millennium*, produced on the basis of the 1998 Birmingham G8 Summit. It examined the contribution of the G7/8 as it began a new era with Russia as a virtually full member, with a rapidly expanding array of ministerial level institutions, and with a new, highly domestic agenda that included financial supervision, employment, and financial abuse. The 1999 Cologne Summit, taking place as the 1997–99 global financial crisis was coming to an end, inspired *Shaping a New International Financial System*. This book took an economic and political-economy approach to the central issues confronting the global economic community at that time. The 2000 Okinawa Summit led to *New Directions in Global Economic Governance*. It examined international finance in its global and Asian dimensions, the international trade system in the wake of the failed attempt at Seattle in December 1999 to launch a new Millennium Round of multilateral trade negotiations, and the new digital economy that is transforming national societies and the international system alike.

The current volume, based on the work of the G7 leading up to and at the 2001 Genoa Summit, expands the existing explorations in several ways. First, it takes up the urgent and new challenge of how to generate global growth amidst the unprecedented combination of a sharp simultaneous slowdowns in all three G7 regions, the simultaneous eruption of financial crisis in two major emerging economies in two key regions, and the collapse of many of the leading-edge 'new economy' sectors and firms. Second, it addresses the ongoing effort to construct a new international financial architecture to produce stability, growth, and equity in a rapidly globalising era. Here its emphasis is on the new generation of issues in the architectural effort, notably designing mechanisms to prevent crises and reform the multilateral development banks. Third, it looks at the deeper, structural issues upon which the smooth functioning of the global financial system and the construction of an effective new system of global financial governance ultimately depends. It examines in particular the issues of currency consolidation and 'dollarization', the impact of derivatives on world monetary growth and international financial volatility and stability, and the relationship of foreign direct

investment, mergers and acquisitions, trade liberalisation, and ecological concerns on the international financial system. In all cases, it assesses the performance and potential of the G7, the International Monetary Fund (IMF), and the international institutions centred on each, in addressing these new challenges.

To explore these new issues, the Associazione Guido Carli and the G8 Research Group mounted a conference on 'Assembling a New International Financial Architecture: The Deeper Challenges'. The conference was held at LUISS University in Rome on 17 July 2001, in the immediate lead-up to the 2001 Italian-hosted Genoa G7/8 Summit. It assembled a dozen scholars, practitioners, and policy makers from all G7 regions to present papers in an intense, day-long interchange with a similar number of expert colleagues based in Europe, North America, and Asia. Taking place just after the G7 finance ministers met in Rome on 7 July to prepare their reports to leaders, and occurring immediately before the leaders themselves gathered in Genoa on 20 July to consider these reports and related issues, the conference offered a timely opportunity to deepen the analysis and widen the array of options available to the G7 leaders. It also outlined an agenda for intensified analytical work and policy analysis in the year leading up to the Canadian-hosted Summit at Kananaskis, Alberta, on 26–27 June 2002. To continue this work, the Associazione Guido Carli and the G8 Research Group have established the Research Group on Global Financial Governance as an ongoing contribution to the scholarly and policy analysis of these vital issues.

This volume synthesises the results of three ongoing research programmes. The first is the work of the Associazione Guido Carli on the international monetary system. That work has generated two major edited volumes: *Ideas for the Future of the International Monetary System*, edited by Michele Fratianni, Dominick Salvatore, and Paolo Savona (Kluwer Academic Publishers, 1998), and *The New Architecture of the International Monetary System*, edited by Paolo Savona (Kluwer Academic Publishers, 2000). The contributions of Paolo Savona, Michele Fratianni, and Dominick Salvatore in this current volume reflect their work in that programme. The second research programme is the G8 Research Group's ongoing exploration of international finance, in which John Kirton, Nicholas Bayne, George von Furstenberg, Alan Rugman, Takashi Kiuchi, and Andreas Freytag have been involved. The third is the University of Toronto's Centre for International Studies' project on 'Securing Canada's Environmental Community Through International Regime Reform' (the EnviReform project), financed by the Social Science and Humanities Research Council of Canada, through its strategic grant programme on 'Globalisation and Social Cohesion in Canada'. John Kirton and Alan Rugman are involved in this project.

*Governing Global Finance* draws its contributors from all of the G8's constituent regions of North America, Europe, and Japan, and most of its member countries. Those contributors come from the disciplines of economics, the international political economy field of political science, and management studies, and from leading universities in the United States, Italy, Britain, Germany, Canada, and Japan. Many of

the authors have experience at senior levels within many of the core governmental and intergovernmental institutions at work in managing and governing the international economy, or have served in senior advisory capacities. With this wide variety of perspectives, analytical approaches, and judgements, the collection combines the insights of scholars and practitioners familiar with Italy, with those in North America, and other leading G7 countries, who draw on a rich assortment of theoretical traditions, interpretative frameworks, and concluding convictions. Yet all share a basic belief that fundamental changes are underway in the international financial system, that the existing arrangements for global financial governance are still struggling to identify and address them adequately, and that the G7 plays an important role in meeting these new challenges in a rapidly globalising age.

This volume was prepared before the terrorist attacks on the United States of 11 September, and the Argentinean default in late December 2001, both the world's largest in their respective categories, gave new severity and urgency to the issues addressed within it. Although the introductory chapter has been revised and extended to take more direct account of these developments, no attempt has been made to reconstruct the individual contributed chapters in the light of these events. Indeed, the emphasis of this volume on underlying structural issues has given its contributions a value beyond the disruptions of short term, or even decade-defining developments. In many cases, the analyses here have anticipated, and had their relevance reinforced by, the shocks of the last half of 2001. In the introductory chapter, however, the editors have placed the analyses in this volume more directly in the context of the events of 11 September and December, and of the forthcoming Kananaskis Summit that will be called upon to respond.

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We are also most grateful to Mario Arcelli, rector of LUISS University, and his colleagues for providing the splendid facilities in which our conference took place. In Rome and Milan, Laura Neri, Chiara Oldani, and Sabrina Canossi were a model of tireless efficiency and co-operation in making the many physical arrangements required for our venture. In Toronto, we owe a special word of thanks to Madeline Koch, the Managing Editor of the G8 Research Group, whose managerial and editorial skills were essential in helping organise the conference and ensuring that initial thoughts and rough drafts were transformed into a polished integrated book. More broadly, we note with deep appreciation the indispensable contribution of Gina Stephens, Co-ordinator of the G8 Research Group, of Sandra Larmour, the Director of Development of the G8 Research Group, of Michael Rollason of RBC Dominion Securities, of Jason Wong of the Government of Ontario, and of Shinichiro Uda, Director of the G8 Research Group's office in Japan.

At the University of Toronto, we are grateful to President Robert Birgineau, Vice-President Heather Munroe Bloom, Patrick Gutteridge, Judy Noordermeer, and their colleagues for their full co-operation in assisting the G8 Research Group with arrangements for President Amato's visit on 29 March 2001. We also acknowledge the continuing support of our colleagues at the Centre for International Studies: its director, Professor Louis Pauly, who oversees our research activities, and Professor Peter Hajnal, who assumed the vital task of securing the anonymous referees who reviewed our draft manuscript and who collectively approved it for publication. We owe much to the comments of our referees, whose often trenchant but always supportive comments have been taken fully into account. At Trinity College, we acknowledge the critical support of provost Tom Delworth, bursar Geoffrey Seaborn, who manages the G8 Research Group's accounts, head librarian Linda Corman, who oversees the development of the G8 Research Library Collection, and Professor Robert Bothwell, Co-ordinator of the International Relations Program. At the Department of Political Science, Professor Robert Vipond, the Chair, and professors Ronald Deibert and Lawrence LeDuc have provided encouragement. At the University of Toronto Library, chief librarian Carole Moore, internet director Sián Mickle, and project manager Marc Lalonde have been indispensable.

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Michele Fratianni, Paolo Savona, and John Kirton, February 2002

# List of Abbreviations

ADRs	American depository receipts
AMF	Asian monetary fund
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
BIS	Bank for International Settlements
CAP	Common Agricultural Policy
CBA	currency board arrangement
CCL	contingent credit line
CDF	Comprehensive Development Framework
CPI	consumer price index
DAC	Development Assistance Committee
ECB	European Central Bank
EEA	European Economic Area
EMS	European Monetary System
EMU	European Monetary Union
EVO	Evaluation Office
FAO	Food and Agriculture Organization
FATF	Financial Action Task Force
FDI	foreign direct investment
FILP	Fiscal Investment and Loan Program
FIUs	financial intelligence units
FSAL	Financial Sector Adjustment Loan
FSAP	Financial Sector Assessment Program
FSF	Financial Stability Forum
FSSA	Financial System Stability Assessment
FTAA	Free Trade Agreement of the Americas
G5	Group of Five
G10	Group of Ten
G20	Group of 20
G22	Group of 22
GAB	General Arrangements to Borrow
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GDRs	global despository receipts
GPGs	global public goods
HIPCs	heavily indebted poor countries
HLIs	highly leveraged institutions

IAIS	International Association of Insurance Supervisors
ICT	information and communications technology
IDA	International Development Association
IDG	International Development Goals
IFIs	international financial institutions
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
IT	information technology
LDCs	less developed countries
LDP	Liberal Democratic Party (Japan)
LIBOR	London Interbank Offered Rate
LOLR	lender of last resort
LTCM	Long-Term Capital Management
MAI	Multilateral Agreement on Investment
MDB	multilateral development bank
MEC	marginal efficiency of capital
MFN	most-favoured nation
MIC	middle income countries
MNC	multinational corporation
MPIs	macro prudential indicators
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NCCTs	nonco-operative countries and territories
NDFs	nondeliverable foreign exchange forwards
NEPAD	New Plan for African Development
NGO	nongovernmental organisation
OCR	ordinary capital resources
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OFC	offshore financial centre
OPEC	Organisation of Petroleum Exporting Countries
PPI	producer price index
PRSPs	poverty reduction strategy papers
RDBs	regional development banks
ROSCs	reports on observance of codes and standard
SDDS	Special Data Dissemination Standards
SDRs	special drawing rights
SSD	sample standard deviation
UNCTAD	United Nations Conference on Trade and Development
UNSCR	United Nations Security Council Resolution
WB	World Bank
WHO	World Health Organization
WTO	World Trade Organization

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