PANELISTS DEBATE

John Lipsky, Senior Fellow, Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS)

Mr Trump's video address was released through YouTube, indicating that we will be receiving presidential information through non-standard or alternative media from now on, between Twitter and YouTube. The idea was to announce the actions that he was planning to take on day one of his presidency, and one of those items was to announce withdrawal from the Trans-Pacific Partnership agreement. He put this in the context of saying that the principle will be "America First", with a goal of bringing manufacturing – he mentioned autos and high-tech – back to the United States, which is a little uncertain as a prospect. The tone of this announcement is slightly ominous, however, because it hints at possible new trade protection. Moreover, he said that henceforth he would focus on bilateral trade deals, which adds a new complexity.

He announced some other things, as well, including a two-for-one regulatory programme in which every new regulation promulgated would have to be accompanied by the extinction of two prior existing regulations, along with some other measures. Further to his pronouncements, it appears that financial market participants have made some assumptions about the effects of President Trump's plans for the economy. There has been a reiteration of the intention to begin a very large infrastructure programme -- although no details are yet available -- along with tax cuts. In response, market participants have concluded, at least to some degree, that US fiscal policy will become more expansionary at a time in which it is possible that the economy is approaching full capacity, at least in many areas. As a result, the outlook for both Fed policy and long-term interest rates, has become much more uncertain, with investors fearing more rate rises sooner than had been expected previously.

Virginie Robert, Foreign desk Editor, Les Echos

Mr Bark, do you have any gut feeling as to what this means for the global economy?

Taeho Bark, Professor, GSIS, Seoul National University

I think I am the only trade person – the others are focused more on finance – so I would like to briefly touch upon the recent world trading environment. We thought that the conclusion of TPP was very welcome news, because nothing is going well these days on the multilateral front. The Doha Round is failing, actually, after 15 years of negotiations going nowhere, and other so-called mega- RTAs such as China-Japan-Korea trilateral FTA negotiations, the RCEP and TTIP, have been moving but very slowly without much progress, so we thought that TPP might be an epoch-making event which could push for other negotiations. However, president–elect Trump had said the US would withdraw from the TPP and it added much more uncertainty and unpredictability to the world trading system. This is because right now it is facing the most difficult challenges since the establishment of the multilateral trading system in 1948.

Therefore, as trade economists we are really concerned. And on top of that Trump mentioned the US will take many protectionist policy measures in the future and it will really hurt the current situation. If we look at TPP, it was originally going to put some pressure on China, which is in line with Trump's negative remarks about China. Therefore, he might change his mind, and even if he does, it might take quite some time .through renegotiations and other things.

Virginie Robert, Foreign desk Editor, Les Echos

I will react right away on China, if you do not mind, Mr Qiao, because there was an APEC meeting earlier, and the Chinese who were not included in TPP find a lot of new opportunities that they would like to size up.

Yide Qiao, Vice Chairman & Secretary General, Shanghai Development Research Foundation

I would say yes, the position of the Chinese Government towards TPP has changed a little from two or three years ago, when it was against TPP, thinking that it was targeted against China. However, in the past two or three years they have said that they are open to seeing what will happen. Now it has given the Chinese Government more opportunity to carry forward other programmes like RCEP, and some countries have already expressed interest in negotiations.

Virginie Robert, Foreign desk Editor, Les Echos

Bargaining will probably be tough at the same time, because you see opportunities on the trade side, but at the same time he said he would raise tariffs incredibly high on China, so I suppose there is a lot of bargaining space there.

Yide Qiao, Vice Chairman & Secretary General, Shanghai Development Research Foundation

I am not sure whether the new US administration will ultimately impose high tariffs on Chinese exports. China would bring the case to the WTO if Trump did that, but at the same time, there will be retaliatory action against the US. The result will be disorder for the whole world economy.

Virginie Robert, Foreign desk Editor, Les Echos

Therefore, there would be a very strong reaction in multiple instances. Do you think we are going toward trade wars?

Taeho Bark, Professor, GSIS, Seoul National University

We learned the lesson from the past. At the end of the Second World War, to avoid the kind of trade war we had before, we established a multilateral trading system. But if things are going like this, with retaliation after retaliation by big players, maybe we are virtually entering into some kind of trade war, which we should avoid. Maybe through this kind of conference we should give some suggestions to the leaders not to have this kind of situation.

John Lipsky, Senior Fellow, Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS)

It seems that we would not want to be premature about what will happen in practise. Mr Trump is a negotiator, so this may be an opening position, and Prime Minister Abe already has responded by saying that Japan would not interested in going forward with TPP at this time without US participation, which was interpreted as saying that the Japanese authorities at least want to wait and see what Mr Trump's intentions are in the longer term. You would hope that the dangers of active protectionist and retaliatory measures in the trade arena would be well understood and avoided.

Jean-Claude Trichet

First of all, we should take what is going on very seriously, not only in the US but also in Europe, certainly, and in other advanced economies where we have exactly the same phenomena of frustration of a large part of the working population feeling the stress of the intense competition, the need for restructuring and reshaping in the productive sector, the impact of science and IT, and the other advances which are also calling for abrupt and sharp changes. This frustration is now expressed very clearly in political terms, and I would interpret that as something like a wish to slow down the process of advances in all fields, because it hurts us and it forces us to change our jobs, accept restructuring, accept a lot of things that are hard to do, particularly when you have a low level of education and major difficulties in re-engineering your own skills.

That is the main political problem I see in the US and the UK in a way, because Brexit says the same, and in continental Europe, particularly in our country. That would certainly translate into more or less blocking the trade agreements that were mentioned. Going so far as to translate into a high level of new tariffs, a really protectionist measure, could be extraordinarily dangerous. Blocking the trade agreements already has an impact on the global economy, which would obviously be very bad, but again, if we are already told that things are going a little too fast in the advanced economies, then we have to take that into account.

I would say that I hope very much that we will not embark on new explicit protectionist measures that would be extremely dangerous for global growth. Unfortunately, I take it as a given fact that we will not proceed with new big trade agreements.

Virginie Robert, Foreign desk Editor, Les Echos

What you are saying is interesting, because the fact that people are very afraid of the impact of globalisation today makes it difficult for them to agree to those large trade agreements. Is the fact that we would go through more bilateral agreements relevant? It gives you the pace you are asking for to negotiate things country by country, but it is complicated at the same time. China will probably do it now, and the states are eager to do it – to go country by country and completely forget about multilateralism during the four-year timeframe we have, which is the mandate for President Trump.

Taeho Bark, Professor, GSIS, Seoul National University

Because the multilateral setting is not moving very well, countries are responding with more bilateral FTAs, but recently we have the so-called mega-RTAs, which consist of many countries. Having a series of bilateral FTAs increases the pressure of the adjustment for business firms. So if you have one more FTA after another, the marginal gain for the players decreases while the administration cost is increasing. That is why at some point in time they want a bigger RTA, which is much more efficient. Now the TPP has a very negative impression among the general public in the US, which is why the US president-elect is going to abandon the TPP and will try to have more bilateral FTAs. I do not think this is a good strategy or direction.

Virginie Robert, Foreign desk Editor, Les Echos

The pace of trade is really slowing, at the same time, and I am not sure that those big multilateral agreements would really boost it considerably, but they should bring some effect. If we do not have them, what can increase growth in emerging and advanced economies? We cannot rely on trade agreements anymore, for at least a couple of years. Will we have big, USD 1 trillion infrastructure programmes such as Donald Trump is talking about in the US? They are planning a CAD 120 billion infrastructural investment plan in Canada. Is this what we will have to rely on to give a booster to our economies, or are there ways to improve our investments more efficiently? The problem is that since 2008 the pace of growth has been extremely slow.

Jean-Claude Trichet

It is absolutely clear that the pace of global trade has slowed considerably, and it is undoubtedly linked to the problems that we had in the advanced economies at the time of the crisis and the legacy of the crisis. It is also clearly a very bad move. I would like to ask my colleagues whether there is some merit in the explanation that, in any case, the expansion of global trade, which was absolutely incredible in the 2000s, was linked in some measure to a profound transformation of the value chain at a global level, and that part of this slowdown is perhaps due to the fact that this phenomenon is itself slowing down, because you cannot go too far in reshaping or resorting the value chain at a global level.

There are undoubtedly elements that are very alarming in what we have observed in the recent period, and perhaps elements that we can partially explain, but that does not diminish in any respect the judgement that global trade is closely associated with global growth. The slowing down of global trade is bad, and it seems that this is the intention of many in the advanced economies, not only Mr Trump but also many in Europe, even in Germany, which is very surprising, and in France, where there was opposition to the trade agreement with the US. Therefore, we have something very serious here, and it is undoubtedly bad for global growth, and bad also for the emerging economies.

John Lipsky, Senior Fellow, Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS)

I am sure what Jean-Claude has said has truth to it. For the advanced economies, their growth challenge reflects the persistent weakness of business investment that is linked to the slowing of their productivity growth. This effect is particularly notable in the case of the EU. Looking at the IMF figures on net capital formation in the EU since the global financial crisis, annual growth has been only between 1% and 2%, so that in the context of a relatively stable labour force, growth could not be much faster than 1% or 2. In short, there is no clear and simple explanation for this persistent weakness of capital spending, nor an obvious near-term cure.

In the case of the United States, there has been a series of developments in the last two years that should have boosted non-energy capital spending, but without producing such a result. Finally, despite the slowing of overall growth in the emerging market economies, the growth in exports from this group has been slower than their GDP growth – in other words, international trade, which previously was a key driver of their rapid expansion, has turned into a drag on their growth.

Yide Qiao, Vice Chairman & Secretary General, Shanghai Development Research Foundation

Larger-scale investment in infrastructure is one way to solve a low growth rate, but it does not solve all the problems – maybe just one. Looking at the experience of China, over the past three or four decades the Chinese Government has spent a lot of money on infrastructure construction, which gave an incentive to the Chinese economy. However, how do you make such kind of investments? It will be depending on the environment in different countries at different developmental stages. I want to share my private conversation with the professor who is now teaching at Chicago University. He used to be the chairman of the President's economic council at the first term of Obama administration. A couple of years ago in a meeting in Beijing, I told him that I had just come back from the US and was wondering why there was no high-speed train from New York to Boston to Washington DC. Each journey took about four hours, whereas in China it would take two hours. He said to me that the problem was that it was very hard to negotiate land prices, and that it would take too much time and money to get the land. The track was also not very straight, so high-speed trains could not use the existing track. Therefore, when Mr Trump said that he wanted to make a USD 1 trillion investment in infrastructure, I thought it would not be easily achieved.

Virginie Robert, Foreign desk Editor, Les Echos

Thank you for saying that. Alstom, a French company, just won a huge contract for high-speed trains between Boston and New York, so this should improve considerably in the near future. Regarding investment, it is sometimes difficult to negotiate in order to make it efficient, but China has invested considerably, yet your growth is slowing down. You also have a long-term vision and invest in infrastructure, the Silk Road is a long-term project for the whole region, and yet we see the pace of growth slowing down. Is there something you are not doing right?

Yide Qiao, Vice Chairman & Secretary General, Shanghai Development Research Foundation

I do not think so, because that is what I call the development dilemma. Along with rapid economic growth, the cost of labour and of land increase at the same time, reducing the growth rate, so that will naturally happen. You cannot always have double-digit growth, so in this case it is natural. The growth rate of the Chinese economy is now around 6.5%, which is still very high relative to other countries, and maybe in the next two or three years it will go down to a 5% or 6% annual growth rate, which is not bad in some ways. The slowdown of the Chinese economy does of course have some impact on the global economy – if you are a raw materials exporting country, the slowdown of the Chinese economy has a negative impact. However, the domestic market expands rapidly at the same time, providing more opportunities for foreign investment and imports. Overseas direct investment by China is growing rapidly at this stage, which will create more jobs and more opportunities for other countries.

Taeho Bark, Professor, GSIS, Seoul National University

One of the reasons Chinese economic growth is slowing down is the global economic recession. China used to be a global factory, supplying everything, but because of the global recession, Chinese exports are falling, and the Chinese Government is now changing its policy focus toward more domestic market consumption and inland economic development, and by those means to maintain a growth rate of 6.5%.

Korean exports to China, for example, are rapidly decreasing; during the last nine months of this year, our exports to China have decreased by 10%. The reason is that many Korean companies operating in China are doing the same thing as Chinese companies – that is assembling things for exports to the world market – but as their exports to the world market are decreasing, Korea’s exports to China are also decreasing since most of the parent companies export parts and components to their subsidiaries for final assembly. Therefore, Korean companies are currently adjusting their strategies toward Chinese domestic market which is still growing at the rate of 6.5%.

In that context, a free trade regime is very important. The US will be investing a lot in infrastructure. How can they supply all the materials? They have to import some of the materials, and through that kind of activity there is a positive impact on the world economy, but if you close your door you cannot have a positive impact on the world economy.

Jean-Claude Trichet

What was just said is very important, because we see precisely the development of the Chinese economy itself, where they produce with Korean subsidiaries things that were produced in Korea and imported to China, so you have these things that are coming from Chinese production. Therefore, we see good reasons for global trade to diminish a little – there are very bad reasons and there are some reasons that can be explained.

Going back to China, we must also understand that it now has the same restructuring problems that we ourselves had years ago – the restructuring of the steel industry, for instance, is incredibly extensive and creates problems of great magnitude, which are necessary, because China is at the level of development at which it is no longer appropriate to be that large a producer of steel. That is true for many other areas of production, where the added value of Chinese production is going up, as is the case with any economy which is transforming itself into an advanced economy, and this is clearly the case in many domains in China.

Therefore, I trust that we can pretty easily explain the slowdown in growth in China if we take into account this necessary restructuring, and maybe we will see that it is even difficult to reach the goal of 6.7% or 7% in the years to come, precisely because the drag on the economy of the necessary restructuring of state-owned enterprises such as steel production and mass production in many domains will be very difficult. Reaching 6.5% or 7% today or during the next two or three years means that the service sector must explode, which would be good but difficult to reach.

John Lipsky, Senior Fellow, Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS)

I just wanted to add that IMF figures in the latest World Economic Outlook note that the growth in capital spending or investment in China as a percentage of GDP is dramatically higher than in virtually any other economy, and yet the latest figures show that growth in labour productivity in China is about equal to the emerging market average. At this moment, therefore, there are huge investment flows producing only relatively modest growth in productivity. I assume that China's economic restructuring aim, among other things, at increasing the efficiency of capital spending.

Virginie Robert, Foreign desk Editor, Les Echos

Would you like to comment, Mr Qiao, on the fact that the Chinese economy will have to change too?

Yide Qiao, Vice Chairman & Secretary General, Shanghai Development Research Foundation

I agree with what both of you say. Capital formation came down, especially the investment from private business dramatically decrease for many reasons. The major reason is that private companies do not see great opportunities in China at the moment, so they have been reluctant to make more investments in capital formation. The Chinese Government still encourages public investment in infrastructure, because China is still in the stage of urbanisation, as only little more than 50% of people live in cities, and some of those living and working in the cities who were originally immigrants from the countryside cannot fully enjoy the benefits of those who were originally city residents.

That is the direction the Chinese Government is following in their reforms. The dilemma the Chinese Government is facing is that more and more people still want to move to larger cities rather than small cities, because the larger cities provide better job opportunities, and this will push up house prices. That is a difficulty the Chinese Government is trying to resolve.

Taeho Bark, Professor, GSIS, Seoul National University

The Chinese Government is trying to improve the service sectors, because the productivity is very low, so they made a commitment to gradually open them up to foreign companies and services. This is a little bit technical issue, but in Geneva twenty some countries are negotiating on the Trade in Services Agreement. The major countries are all participating, but China is not, because the US is blocking Chinese participation, and the Chinese Government wants to show its willingness to participate. The major countries like the EU, the US and Japan should seriously consider inviting China into these negotiations, because they are in line with the Chinese Government's own policy.

Virginie Robert, Foreign desk Editor, Les Echos

Mr Qiao, do you think it would be a good idea for the Chinese to join those discussions in Geneva?

Yide Qiao, Vice Chairman & Secretary General, Shanghai Development Research Foundation

Yes, definitely.

Virginie Robert, Foreign desk Editor, Les Echos

Turning to Europe now, we have a different situation. It has been a trying year – Brexit was a really big surprise and created a lot of new uncertainties, and the level of growth in Europe is not very high, especially in countries like France. The Commission just reviewed the budget of every state in the EU, and they are giving us some leeway to do some stimulus, which is being asked for by all the Central Banks, and the ECB is doing a lot to help the economy grow, but it is not sufficient. Mr Trichet, do you think that the governments have enough will and power to improve in a substantive way the European economies given the political context, which is more difficult today?

Jean-Claude Trichet

I must say that I am a little uneasy with the idea that there is now a single recommendation for all countries in Europe, which is more or less the way the message of the Commission and the authorities is conveyed. There is absolutely a need for activating the domestic economy in Europe, as we are posting something like a 3% current account surplus in the Euro area as a whole. I would be very satisfied with a 0% balance in the current circumstances, where we have a clear need for growth and jobs and certainly a slack domestic economy. That being said, it does not mean that all economies may embark on public spending and deficit. It is true for Germany, probably for the Netherlands and perhaps one or two other countries. Regarding other countries, structural reforms are of the essence, and they have to be very prudent, because I remember what happened in 2010, 2011 and 2012, with a dramatic loss in credibility and credit-worthiness, calling for extraordinarily difficult measures. These came from the Central Bank, and I have the memory of purchasing treasuries from Greece, Portugal and Ireland in 2010 and from Spain and Italy in 2011, which were very difficult decisions to make, undoubtedly very bold and swift as well, because it had to be done in a very short span of time during the drama which was unfolding. It also called for dramatic changes in the macro-policies of the countries concerned. What we are characterising as austerity in Europe was austerity in a part of Europe, in the countries that were in major difficulties, and it was necessary to embark on appropriate measures to regain credibility and competitiveness.

Regarding my own country, I do not think that it is a good idea to increase public spending when you are already spending something like 57.5% of your GDP on it. It is good to rebalance and reshape public spending in order to increase growth and job creation. However, increasing the deficit would not be appropriate for Spain, Italy or Portugal – that is clear. Therefore, we have to understand that there are different situations in different countries in Europe. Germany is not in Italy's situation, so there should be recommendations that are not alike. There are countries that are extremely competitive and countries that are not competitive, countries with very good cost-competitiveness and countries with bad cost-competitiveness, and the job of the Commission is precisely to adapt its recommendations to each country, which is exactly what the Stability and Growth Pact is supposed to do, and it is exactly what the macro-economic imbalance procedure, which is a new pillar for monitoring competitiveness, is supposed to do too.

It is true at the global level as well. It seems to me that you cannot set a global level. The new motto is to spend and embark on deficit – but no, you have to adapt that to the various countries concerned.

Virginie Robert, Foreign desk Editor, Les Echos

Do you agree that Germany should do more for the rest of Europe, considering all its surpluses?

Jean-Claude Trichet

Yes indeed – Germany has a current account surplus of around 8.5% to 9% of GDP. Germany behaved itself very properly since the setting up of the Euro. The macro policies and structural policies were undoubtedly good, and the success is there to be seen – full employment is there – and it is the main goal. The main goal of any economy, whether advanced or, I trust, emerging, is to have full employment and not let the country and the economy enter a situation of mass unemployment. Therefore, Germany did very well.

However, the normal functioning of a market economy, when you are posting such an enormous savings surplus, company profits and current account surplus, is normally to activate domestic demand, both through investment and also of course through wages and salaries, which are more dynamic. I have to say that the rhetoric of the German Government has changed quite considerably, because they have encouraged more dynamism in wages and salaries, and they have encouraged minimum wages, which is new in Germany and is certainly an important signal. They have also said they will reduce taxation, so part of the room for manoeuvre will be utilised. I expect wages and salaries will increase much more dynamically and that investment will also be more dynamic in Germany, where you also have a need for infrastructure investment in particular, and that we will see a fall of this current account surplus, which would be good for Germany and for Europe as a whole. It would be very good for Europe as a whole, obviously.

John Lipsky, Senior Fellow, Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS)

I agree with what Jean-Claude has just said. The current account surplus reflects the excess of savings over investment, and when we look at what is unusual, it is not the level of savings but the very low level of investment. Therefore, the question that has to be asked is what is standing in the way of investment, and if you spoke with a lot of executives from the principal corporations in many Eurozone economies, they would tell you that they are investing significant sums, just not in Europe, because the opportunities are better elsewhere. The question that has to be asked is, "What are the barriers to growth and investment in the Eurozone?". To emphasise in practical terms what Jean-Claude said, there need to be structural reforms, meaning the perfection or increase in the openness and flexibility of markets, both labour and product. However, an aspect that also has to be addressed is that the bank-based Eurozone financial sector is not as healthy as it needs to be to support that growth, and this has been reflected in the dramatic fall in Eurozone bank stocks so far this year. Many of the European banks are not investible at this time, so it is clear that more work needs to be done on both these aspects to improve the Eurozone's economic outlook.

Virginie Robert, Foreign desk Editor, Les Echos

One of the big worries today is around the Italian banking system. We always have a black sheep in the Eurozone, and it used to be Spain, Portugal or Greece, but now the worries are geared toward Italy. Mr Trichet, what is your assessment of that? Is there a systemic risk coming from Italian banks?

Jean-Claude Trichet

First of all, we have to place the issue of the European banks in a larger context. When you look at the financing of the US economy, 25% of it was financed through banks only – before the crisis, because it has changed a little – and 75% through the market. It was exactly the contrary in Europe, where the banks were playing a decisive role in the financing of the economy. We had the crisis, and in the crisis the problem was to maintain the liquidity of the banks and the financing of our economy, but the effort that we had to make on our own banks as a proportion of the economy was three times the effort the US had to make on its own banks, simply because of the size of the banks in Europe and the US and the proportion of financing that they had to organise.

Therefore, we have to understand that it is not abnormal, unfortunately, that the problem of the banks in Europe is larger than the problem of the banks in the US. We are very often heavily criticised in Europe with the argument that we did not do what was necessary as early and aggressively as in the US, and my response is that the problem was not as large. The markets in the US had their liquidity because the government took major decisions with two institutions in particular, Freddie Mac and Fannie Mae, which specialised in mortgages and could save the banks from the risks that they have in Europe because there is a different system.

All that being said, it is extremely important that the banking problem in Europe is made as clean as possible. The banking union is a major reform which goes in this direction, and we now have a supervisory authority which is acting at full speed. Because the system was highly segmented and is still segmented to a considerable extent, we might have problems in some countries. We do not mention the Spanish banks, because they were restructured in time with the help of Europe through the help that was given to the Spanish state. It was not the same in Italy, and that is why we are speaking quite a lot of the Italian banks. The system has to be cleaned up in Italy where there is a special problem with NPL, non-performing loans, and I am sure that it will be done. I do not think that there is a lack of capital to invest in those banks, and I do not think that there are problems which could not be solved, but it goes against decisions which were taken at the global level and at the Italian level, namely that with banking problems in the future – and we are in that future – you should not normally embark on help from the state but should ask creditors to take their own losses, which is what we call in the jargon “bailing-in”. That is good when you do not have a systemic problem, but not when you do, and we do have a systemic problem in many cases.

I trust that we will have to find out the appropriate methods with the help of the Italian Government, the Commission and the other countries, in order to adapt to a circumstance where some help from the state is probably necessary, even if the ultimate goal is that the taxpayer should always be protected from banking problems in the future.

Virginie Robert, Foreign desk Editor, Les Echos

A lot of reforms were created at the governance level after the 2008 crisis. Do you think we are more protected against systemic risk some years later? Have all the reforms been achieved or is there still more to do? In addition, taking into account the balance sheets of central banks today, they are bloated and overloaded and maybe they do not have enough fuel left to help out if another crisis comes along. Could you each assess whether you feel more comfortable that global governance has acted to prevent big crises like that which we had in 2008, or do you think there is still more to do?

Taeho Bark, Professor, GSIS, Seoul National University

I am not an expert in this subject, but in the case of Korea, we are much more prepared for this kind of crisis, not because of the 2008 global financial crisis but because of the 1997 and 1998 East Asian financial crisis, so I think corporations, financial institutions and even the central bank~~s~~ are much more prepared to deal with this kind of thing. However, one thing which is very interesting is that the IMF gave us a very stringent recommendation in 1997, in other words, we had a financial crisis and the IMF recommended that we should have a tighter monetary policy with higher interest rates, and that the government~~s~~ should not spend more money. However, in 2008 there was exactly the opposite kind of policy recommendation – low interest rates, printing money and stimulating the economy through government expenditure.

I remember a lot of healthy small companies collapsed at the time because of high interest rates. The IMF quickly adjusted to low interest rates, but in any case we are much more prepared now. We are suffering from a global recession, but not a systemic kind of crisis in Korea.

John Lipsky, Senior Fellow, Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS)

There are a number of things to say. I do not have to feel defensive about that period, as I was not in the IMF, and was perhaps a little critical of some of the actions of the Fund at that time. I have two or three things to say about the Asian crisis. Firstly, it is so little recognised that at the time the IMF had no instruments available to it that could serve usefully as crisis prevention instruments but only as crisis resolution instruments. Secondly, part of the problem of the seemingly inappropriate diagnosis was based on the consensus view that the downturn would be quite mild, and when it became evident that the downturn was severe, all the policy advice was recast, so we should not miss the point. The fastest growing region of the world in 1996 was Asia. There was a recession in 1997 and 1998 and talk about structural feet of clay. The fastest growing area of the world in 1999 was Asia, so something went right.

Are we still susceptible to the kind of crisis we saw in 2008 and 2009? I hope the answer is no. The principal institutional response to the global financial crisis was the creation of the G20 Leaders' Summit process and the creation of four principal goals of the G20 – firstly to restore global growth, secondly to repair and reform the financial system, thirdly to prevent trade protectionism and promote new trade liberalisation, and fourthly to reform the international financial institutions. There was a clear assignment of duties, if you will, in each case – for growth, they created the Framework for Strong, Sustainable and Balanced Growth, which was a new process of cooperative setting of macroeconomic policy. Secondly, they created the FSB, the Financial Stability Board, to reform the financial system, enhance systemic sustainability and create a level playing field. Regarding trade, they focused on the completion of the Doha development round. The fourth step was essentially IMF reform.

All of those remain either unattained or incomplete at this time, and the commitment of the principal G20 countries to that cooperative framework process of macroeconomic policy-setting seems to have been, I have to say, a big disappointment. However, be that as it may, the risks of financial instability have been reduced by the actions of the FSB, and capital has been increased. Certainly there are still risks, but we are in better shape than we were before, and the G20 Framework exists – it is there, clicking over, if you will, in case there is a need for larger-scale collective action. The final point I would make in this context is that the IMF still lacks sufficient crisis prevention instruments to be able to work as effectively as it should and needs to.

Yide Qiao, Vice Chairman & Secretary General, Shanghai Development Research Foundation

I fully agree with what John said. Based on what he described regarding the progress we have all achieved after the outbreak of the global financial crisis, we still have a long way to go to totally exclude the possibility of a financial crisis occurring. However, we still achieved a good deal of progress. For example, I can mention that after the global financial crisis we have a new concept called global financial safety net. People recognise that if you only count one level of institutions or resources, it is not enough to prevent the occurrence of a financial crisis, so currently global financial safety includes four components. The first is self insurance – developing countries have to have some kind of foreign reserve. The second is a currency swap – if something happens you can do a currency swap, as South Korea the US did at the beginning of the crisis, which finally gave you a lot of help. The third is regional financial arrangements like the Chiang Mai Initiative, the ESM. The last one is of course the IMF. The leaders of the G20 recognised that the IMF should play a more important role.

I was very impressed with Ms Lagarde's lunch speech on 31 March at the conference in Paris, where she said that the IMF should take on a more active role in promoting the cooperation between the IMF and the regional financial arrangements. I thought that the IMF and the Chiang Mai Imitative had already done some exercises to prepare for joint action in certain cases. That kind of thing is positive and we should continue doing it.

Jean-Claude Trichet

Responding to your question, I would agree with everything that has been said by the panellists. We proved that we were able at a global level to embark quite well on crisis resolution, because we were threatened by a depression of the same order as that in the 1920s and 1930s. That was clearly what was threatening the advanced economies and the global economy as a whole. It was a terrible threat, and, through a combination of bold and swift measures and through a combination of institutional arrangements and the creation of the G20 at the level of heads of state and government, it was a really decisive step in the heat of the crisis. I ask you to note that it was something of extreme importance, because the informal cooperation and governance of the global economy was given to the G20, namely, to all systemic emerging economies and not only to the advanced economies, which was the case before.

The G7 passed the baton, if I may, to the G20, and the G20 did a very good job in the crisis, in my opinion, avoiding a Great Depression by means of the four dimensions that have been mentioned. However, I agree very much that we are exactly in the middle of the road. I cannot say that we have all the elements which permit us to guarantee that we will not have a new crisis of the size of the one we had. When I look at a number of indicators, I see in particular that we have an increase in leverage at a global level. Part of the crisis came out of the piling-up of debt, public and private, and then we had the explosion of 2007 and 2008, but now we are in a situation of pure leverage, namely debt outstanding as a proportion of GDP, which is higher, so from that standpoint we have no reason to be complacent in any respect.

I also have to say that there are other elements where we can say that we did not do the job yet. The non-banking sector, the shadow-banking sector, has not been touched in a very convincing way. Regarding the banking institutions and the insurance companies, the new prudential rules are there and they are quite important. Therefore, I would say that we are in the middle of the road. We are back-pedalling, of course, in terms of trade, and we already addressed this. It was one of the four dimensions that were reaffirmed by the international community, emerging countries as well as advanced economies, in the time of the crisis, and that is one of the reasons why we have to be very cautious and prudent on the consequences for the global economy of the new move on trade.

Your question was also about the central banks. I would say that they were very bold and swift. A lot of decisions were taken extremely rapidly and are still considered today as necessary, which, by the way, means that we still have problems in the advanced economies. We are not out of the woods from that standpoint. However, the message of the central banks to the other partners is very clear, and it is the same in Japan, in Europe or in the US, in the advanced economies, and that is that they are not the only game in town, that governments, parliaments, the private sector and social partners have to step in. They are doing a lot, but if what they are doing in Japan, Europe and the US is only to prevent the other partners from doing their jobs, we are only paving the way for the next crisis. The kind of job which should be done, of course, is structural reform in all countries. There is not a single country where you could say that the job is done from that standpoint.

These are also different messages. You can tell some countries that they have room for manoeuvring and that they should embark on the appropriate activation of their economies, perhaps through public finance deficits, more public finance spending and so forth – that would be correct in some countries, not in all. I am very afraid of the fact that the Central Bank's message could be interpreted as that we have to embark on generalised loose fiscal policies, for instance, which would be a major mistake, because we already have extraordinarily loose monetary policies.

My neighbour was right in saying that in the Latin American crisis, in the African and Middle Eastern crisis and in the Asian crisis – I am speaking about the sovereign crisis of the 1980s and 1990s – we were asking the countries concerned to adjust, and adjustment was not easy. Regarding this crisis, we only asked the countries which had a major loss of creditworthiness to adjust, namely the five Euro area countries that had difficulties, not the others, and certainly not the other advanced economies. The right and proper attitude, in my opinion, should be in between – vis-à-vis the advanced economies, we have been extremely gentle and kind in this present crisis, and I am speaking of the international institutions as a whole. Calling the advanced economies to adjust dramatically would have triggered a dramatic situation in the entire world, of course, so there are some reasons why the international community was kinder and more gracious to the advanced economies than it was to the emerging economies in the 1980s and 1990s.

However, we still have to reflect on that. It does not go without saying that you tell the Asian countries they have to adjust in the sharpest and most abrupt way at the end of the 1990s, and it does not go without saying that you have to tell the advanced economies to have the most accommodating policies possible because it is necessary in this situation. The right and proper message or recommendation should perhaps be a little in between, and we did not, as I said, adjust at a global level and at the level of the advanced economies since the crisis. When you take the simplest indicator of leverage that you can, it is increasing, and that is not reassuring.