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Good afternoon, welcome to Plenary Session 5. I am John Lipsky from the Johns Hopkins School of Advanced International Studies in Washington, and I have the honour of moderating this panel on the politicization of the international system of payments and the future of the international monetary system, a small topic. However, happily we have a truly all-star panel of experts in this field, and I am sure we are going to have illuminating and interesting discussions. They hardly need any introduction, and since we are running late I do not want to spend too much time, other than you can read along with me. Jeffry Frieden, Government Professor from Harvard, Akinari Horii, who is a now Special Advisor and Member of the Board of Directors of the Canon Institute for Global Studies, but long stalwart of the Bank of Japan. Professor Hélène Rey, Professor of Economics at London Business School, and of course well known in international economic circles for her important work in this area. Sergey Storchak, Deputy Finance Minister of Russia, and a long veteran of G20 meetings where these issues have been discussed. Of course, last and definitely not least, Jean-Claude Trichet, who definitely needs no introduction in this venue.

Let me just begin by giving a few basic facts that set the stage for this issue of the future of the international monetary system. One is of course the dominance of the US Dollar in the US system. A few factoids: global GDP, in 2019, at market rates, about what, in America we would say UDS88 trillion, or USD88 thousand billion I guess in European parlance.

International reserves that are often focused on in this context actually only represent less than USD12 trillion, or USD12 thousand billion, in other words a small percentage of the global GDP. Daily turnover in the Forex market this year was estimated by the Bank for International Settlement at USD6.6 trillion every day, USD 6,600 billion every day, in other words a vastly larger sum than GDP, and an incredibly larger sum than international reserves. According to the BIS, of the daily turnover, 88% of all transactions have the Dollar at least on one side. The Euro, 32%, the Yen, 17%, and a number that may surprise you, China's RMB, 4%.

Therefore, let me just give a quick potted history of how we got here. The Dollar's dominance in the international system began with the end of World War I, but it was formalised in the Bretton Woods system agreed at the end of World War II. That system, a Dollar exchange standard, had the Dollar at its centre. It was intended to be a global system, but the Soviet Union declined, although they participated in the negotiations, declined to participate in the system, instead formed a competing system, Comecon.

The Dollar's dominance survived the end of the formal Bretton Woods system in the sense it moved to floating exchange rates, survived the oil shock, survived the Latin debt crisis and in 1990, with the collapse of the Soviet Union, the entry of China and India into the global trading system, began the period of what I call true globalisation, and the Dollar remained dominant again.

Subsequently came the Tequila crisis, the Latin debit crisis in the mid-90s. The Asian currency crisis of the late 90s, the dot-com recession, the bursting of the dot-com bubble, and eventually the global financial crisis of 2007/8/9. One of the constants of this period was that the US GDP, throughout this period, was declining as a percent of global GDP, and yet the Dollar remained dominant.

Two other factors are important here, especially in the context of our theme of the politicization of the system was the beginning of the use of widespread and often broadly-sanctioned sanctions. First was, I think, in this context what we would call FATF but here it is called the *Groupe d'Action Financière* to combat money laundering and the financing of terrorism began in an effort to put roadblocks that are essentially for political goals as well as economic policy goals that have now been ramped up in a unilateral way by the US.

Therefore, what we look at is trade conflict that the last panel just dealt with. Also, encompassed the use by the US of selective payment sanctions for political reasons, taking advantage of the centrality of the US financial system and the Dollar-based system and the US banking system in that context.

There was an interesting speech at the Federal Reserve's Jackson Hole gathering, symposium, this year by Mark Carney, the Governor of the Bank of England. He said the old consensus was that flexible inflation targeting and floating exchange rates were the best way to conduct policies, and in that context, that there were modest gains for international policy cooperation. However, a rethinking of the current circumstance focusses on dominant currency pricing that reduces the impact, if everything is priced off of Dollars, it reduces the impact of domestic monetary policies and reduces the ability of exchange rates to act as shock absorbers. All of this despite, again, the trend decline of US GDP as a percent of the total.

Therefore, we now have a much more integrated global rate setting as has become very clear in the last few years, and a sense of reduced monetary independence on the part of central banks. A concern that has been quite heightened by the recent economic developments in that the US economy has seemed out of sync with other advanced economies, growth has been stronger, and hence if the Dollar's centrality has been increased in many ways in its impact on the effectiveness of monetary policy elsewhere, the question remains, is this advisable?

Mark Carney suggested that in the long run we would want and need a multi-polar international system. He suggested the creation in fact of something quite speculative, a synthetic hegemonic currency, which is quite a step.

Therefore, let me now turn to the panel and ask them to comment as they wish on three broad themes, one-, or as they wish, but suggest three broad themes: one, what are the elements that have explained the Dollar's continuing dominance in the context of the US economy shrinking, not absolutely but in relative terms, relative to the rest of the economy? Should we expect, as a matter of course, that eventually that shrinkage, relative shrinkage, will tend to diminish the Dollar's dominance? Where is the system likely to go, and where should it go? We are going to ask for commentary across the panel.