HUR KYUNG-WOOK

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Jean-Claude TRICHET

We turn to Hur. You have the floor.

HUR Kyung-wook

I would like to make three points. The first point is this. We all agree that there is a synchronized slowdown, with a potential that we might have a recession. There is a minefield of triggers and factors. There are all these geopolitical factors and anything can trigger some of the economies, pushing some of the economies into recession. My first question is, how can you cope with it? Do we have the right tools to cope with that? You already talked about monetary game, and is it losing its effectiveness. There is a good chance that when you lower your interest further and you ease your monetary policy, you create a big debt bomb down the road, and there is a good possibility that we might end up financing garbage projects. For all of those things, we are going to pay the price.

My main concern is on the fiscal policy. Yesterday, Olivier Blanchard mentioned that monetary policy is tied up in many countries, fiscal might be the only game with the low interest rate. However, with all the populism rising in many countries, everybody, particularly populist politicians, is trying to win elections. This is with a slowly growing or sometimes decreasing pie. Most of the fiscal policies run the risk of ending up being give away. This is rather than being spent in more productive sectors or being used to facilitate structural adjustment.

The third thing is that during the 2008 crisis, we had global coordination. We all remember that the G20 played a very instrumental role. I remember that in 2009, at the Seoul G20, all the leaders agreed to stand still and roll back of all protections and measures. That helped a lot to avoid the worst outcomes of the 2008 crisis. Now we do not have it, and we conveniently say there is a so-called new normal about this low interest rate and all that stuff.

However, we cannot hide behind this new normal about lack of international coordination, and this is very worrisome, particularly for countries in Asia. This is because Asia has been following up globalization, and then we had a crisis 20 years ago, with all this capital flow. Then we recovered. 10 years ago, we had a global financial crisis. However, the question now is, if this global coordination or the role of the G20 is no longer there and if we have a crisis, who can we rely on?

Fortunately, I am very happy to tell you that we have made a lot of progress since the crisis of 20 years ago. We have created something and right now, they call it the RFA, regional financial arrangements. Europe has the ESM and Asia has come away with something called the CMIM. It is a multilateral swap between the 10 ASEAN countries and Japan, Korea and China. Even though it is a work in progress, we have made a lot of progress, but at the same time, there are many missing blocks, missing links in terms of the paid-in capital, etc. There are lots of promises, but there is no actual paid-in capital. When the crisis hits, we will not know how to coordinate between the IMF and these regional financial arrangements and many bilateral swaps. This is also a big concern for many Asian countries.

Finally, I just want to mention that there is something which we agreed under the G20 called capital flow measures for macroprudential purposes. In Korea's case, in the 2008 crisis, we had almost no exposure to the US house mortgage market, and we were sitting on a pretty big amount of reserves at the time with USD 260 billion. Still, because we have a relatively large short-term debt, we are hit by pullout by international investors. There was a pull-out of money. It was only when we entered into the Federal Reserve swapping arrangement of USD 30 billion that the hemorrhage stopped.

When you look at it, this short-term debt is not short-term debt. A large chunk of it was fictional debt. I do not want to be too technical, but it is a forward square-positioning of the foreign banks in Korea. After that, we implemented two measures. We tried the bank levy. If it is less than one year of borrowing, during the inflow stage, they have to pay an additional 10 basis points. Another thing is that all these derivative positions should be linked and limited by the capital base.

With these two measures, what we found out is that the capital inflow does not change in terms of the amount, but the structure changed, so it is much more long term and it is much more stable. Regarding these kinds of capital flow measures are for macroprudential purposes, they should have been encouraged and explored more. The IMF is much more positive on that. The OECD is a little bit more hesitant towards that. This is something we have to explore more, particularly without global coordination.

Finally, regarding this, we mentioned this resetting of capitalism, and because of this perception or actual happening of inequality, I agree that we have got to do something about it. However, what we found out is that we have a left-leaning government which emphasizes a lot about justice, fairness and equality. It is all great in saying it as a cause, but when we are going to try to implement it. You have this nightmare.

Who will define justice? Who will define fairness? All these good intentions often end up with a really bad return. They say the road to hell is paved with good intentions. I am not saying these efforts are not worthwhile, but rather, what I am trying to point out is this. The risk, particularly in populism and trying to address these inequality issues, is that you try to push too far. How to find the right equilibrium is something we all have to struggle with in each country.

Jean-Claude TRICHET

Thank you very much. There are a lot of potential questions for you in the discussion.