Drifts or Connectivity?

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REPORT OF THE 3-DAY SEMINAR

Summary and implications to Latin America and the Caribbean

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The forum *Dialogue of Continents: Drifts or Connectivity?* took place in Paris from September 3 to September 5, 2018. Organized by the Reinventing Bretton Woods Committee and the Hamburg Institute of International Economics, the purpose of this closed-door seminar gathering high-level policymakers and academics, was to allow for free and deep exchanges around some of the main global current issues. It was composed of 13 panel sessions targeting specific hot topics in today's world, in different fields stretching from trade, to technology and to international relations. China, as a major player in the global economy, was at the heart of many discussions, more specifically through the Belt and Road Initiative. Although Latin America was not a central focus, it was mentioned with regards to its economy, its point of interest for China, and its potential in a changing world where the US strategy of looking inwards gives new opportunities. Overall, the panelists strove to forget the old western-centric view of the world, acknowledging that rules are changing, and new markets have been emerging. However, the important topic of the environment was left behind. Although panelists slightly mentioned it – as every topic discussed has had an impact on the environment -, they did not properly tackle it. Nevertheless, the issue is and will be one of the most sensitive the world is facing.

Monday September 3, 2018

Panel Session 1: The World in 2019: Trade Wars the New Normal?

THE DIALOGUE OF CONTINENTS

Chair: **Piroska Nagy-Mohacsi** – Program Director, London School of Economics

- **Jonathan Fried** – Coordinator, International Economic Relations and Personal Representative of the Prime Minister for the G20
- **Hiroshi Watanabe –** President at the Institute for International Monetary Affairs
- **Michael Heise –** Chief Economist, Allianz SE
- **Tatiana Valovaya** – Minister and Member of the Board at the Eurasia Economic Commission

The first panel session discussed the future of the global economic order and potential trade wars, and the importance of strengthening a dialogue of continents to tackle major uncertainties the world is facing. As an introductory speech, the chair stressed the choice of using "Trade Wars" although the term currently used by the IMF is "Trade tensions". Indeed, trade wars seem to be the next type of wars the world will be facing.

According to Jonathan Fried, trade restriction is the new trend, the new normal, in international trade. Proximity tends to matter more: regional agreements are flourishing while global ones are lagging. With the increase in trade agreements, the world has turned into what J. Fried called a "Spaghetti Bowl": a complicated network of trade agreements[1]. However, J. Fried stressed that regionalism, though a growing trend, is only a partial answer. He believes that globalism is not dead.

While Hiroshi Watanabe focused on the importance of mobility, Michael Heise discussed the economic impact of Trade wars. Tariffs on steel and aluminum are still important today and if it continues, the economic impact will stay small. To him, the United States strives for economic as well as other types of domination in other regions (Netflix, Mc Donald's). However, it experiences a negative situation. He believes that the world is not heading to Trade wars as a normal trend.

Finally, Tatiana Valovaya gave a Russian perspective to the question. To her, trade wars occurs when the global economic governance is not efficient. For instance, G7 was invented in 1975 to stabilize trade at that time. As the United States disengaging from the WTO, she believes the institution is not effective today and all international institutions need to be rearranged to preserve world security. However, building a new scheme is not sufficient enough. For instance, Russia experiences a new trend of strict regional economic integration. After the USSR era, supranational activity was pushed back. To her the need to set a genuine dialogue in Eurasia remains urgent. Since the Eurasian continent is an entity, it should work as a whole.

As a conclusion, the first panel discussed the future of the postwar global economic order and was composed of different views on the question of Trade wars. Multilateralism has been questioned but remains a trend.

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[1] Trade between continents has been growing consequently. The supply chain model has been evolving in each region of the world. 71% of the production in Asia goes outside Asia today.

Panel Session 2: The Strategy for Europe?

A TEN-YEAR PLAN

Chair: **Carlo Monticelli –** Vice Governor, Council of Europe Development Bank

- **Yves Mersch –** Member of the Executive Board, European Central Bank
- **Lorenzo Bini Smaghi** – Chairman of Société Générale, and Former Member of the Executive Board of the European Central Bank
- **Sylvie Goulard –** Deputy Governor, Banque de France
- **Jan Zielonka** – Professor of European Politics and Ralf Dahrendorf Fellow at St. Antony's College
- **Holger Schmieding –** Chief Economist, Berenberg Bank

The panel session finds its root in the new schema the world is facing. The United States is consequently changing its position and China is developing its network. What role should Europe play? What should Europe change to strengthen its position?

This year, 2018, shows optimism in Europe with a positive economic momentum and a political situation that has stabilized compared to the past few years. However, the European Union (UE) has been losing its oldest and strongest ally, the United States, since D. Trump became President. The United States radically changed its positions on trade and multilateralism. According to the chair, the world lacks global governance. While Europe is moving towards a more balanced governance, one can question its role. Throughout the discussion, a general idea arose: the economic and monetary unions are not complete in the UE. More specifically, Mr. Mersch (European Central Bank) sees one of the most important problems of the UE in the European Bank and its weaknesses, notably a lack of liability and control. The increased flexibility of markets and the excessive fragmentation make Europe weaker as a player. The UE must improve its management: it should only deliberate on topics that are under its competence and should discuss the Euro topic in Parliament[2]. Mr. Bini Smaghi reminded that most of the current issues find their roots in the 2011-12 crisis. Following on the idea, Mrs. Goulard gave a realistic view of the current issues and stressed that the European population bases its comprehension of Europe on the reality it experiences daily. Thus, reinventing Europe for a better future goes through readdressing European values. Going further, Mr. Schmieding sees in Brexit and its negative consequences in the United Kingdom as a strong argument for the importance of the EU. The fragility of the EU that comes from its multinational character can be faced by even further cooperation, for instance in Defense. On the contrary, Mr. Zielonka (Professor of European Politics) analyzed the failure of the European Constitution (2005) as the consequence of the inability for the EU to reform itself. To him, the willingness to reinvent Europe is lacking since one tend to call a populist each person bringing new and constructive input.

As a whole, the session tackled EU issues and opportunities. In a world where the population rises fast, each decision is decisive to maintaining Europe as a global player. Each European country is important in the formula – for example, Italy and its current labor market crisis – in order not to let the EU shrink ("a country mistrust is dead and highly contagious", Mr. Mersch). The panelist could have been deeper into the strategy to adopt for a development policy and into the decision to adopt with China. The discussion turned around the EU and US but did not assess the importance of other emerging powers. For instance, China is now taking power in every continent including Latin America. Europe has long been a partner of Latin America, but no concrete action has emerged. Should the EU work on the increase in concrete relations with the region?

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[2] The Euro is currently managed in more than one country but there is no topic on the question in the European Parliament.

Panel Session 3: The Reshaping of Global Continents and the Role of Infrastructure Connectivity - STRATEGIES AND IMPLICATIONS

Chair: **Vasuki Shastry** , Head Global Public Affairs. Standard Chartered

- **Shamshad Akhtar –** Caretaker of Finance, Planning, Reform, Economic, and Privatization, Pakistan
- **Koba Gvenetadze –** Governor, National Bank of Georgia
- **Joaquim Levy –** Managing Director and Chief Financial Officer, World Bank Group
- **Alexander Karrer –** Deputy State Secretary, Swiss Federal Department of Finance
- **Mattia Romani** – Managing Director for Economic Policy and Governance, EBRD
- **Yang Yao** – Cheung-Kong Scholar and Boya Chair Professor, Dean of the National School of Development, and Director of the China Center for Economic Research at Peking University

New infrastructures are shaping economic and geopolitical realities. Notably, in 2013 the Chinese government unveiled its Belt and Road Initiative (BRI)[3], a development strategy focusing on connectivity and cooperation between Eurasian countries and China. While China calls it a "bid to enhance regional connectivity and embrace a brighter future", others see it as a push to play a larger role in global affairs and enhance Chinese trading network. The development of such initiatives implies multidimensional changes at regional and international levels. Regional initiatives breaking from the multilateral model are flourishing and reshaping the blocs. Infrastructures critically need to follow on. While Mr. Akhtar (Pakistan) tackled the importance of considering the environment in the 21st century like never before, he also stressed the strategical connectivity aspect in developing infrastructures. Pakistan considers the BRI as a game changer. The flagship project China-Pakistan Economic Corridor (CPEC) is strategic for both participants. Pakistan has been experiencing macroeconomic problems for a long period but has the potential to survive to unleash torrent of economic issues with the CPEC. Likewise, BRI represents an opportunity in small countries. For instance, in Georgia BRI attracts capital and helps developing logistics. The region of Caucasus and Central Asia (CCA region) benefits from trade integration and fiscal framework (investment efficiency). The flexible exchange rate regime applied allows soft landings (process of an economy shifting from growth to slow-growth to potentially flat, avoiding recession). BRI makes it even more crucial for other regions to develop their infrastructures.
Likewise, infrastructures have made the European project easier in Europe, consequently reducing travel times within the region (trains, planes, ships). Infrastructures can be a meaningful outlay for "excess savings" (savings exceeding desired investments) leading to a surge in Trade and global investments. Yet, infrastructures remain a challenge even in highly developed countries. Overall, today sees the decades of infrastructure investment and the development of transport agreements. Infrastructures are key to connectivity, and connectivity means prosperity (Mr. Levy). Good infrastructures can participate to increasing GDP. For instance, in Latin America, an IMF working paper reported that improvements in infrastructure raised growth and investment[4]. BRI is a mirror of search in yield in other regions like the west and creates opportunities to cross-border flows. BRI has reached Latin America and the Caribbean (LAC) officially in 2017-2018[5]. It has already created openings. China has taken up opportunities in every continent has been become a major player.

Finally, the session enhanced infrastructures but did not discuss potential green and smart developments that would make the infrastructure network more environmentally friendly, a crucial challenge in the 21st century.

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[3] aka the Silk Road Economic and Maritime Belt or the One Belt and One Road Initiative (OBOR)
[4] IMF Working Paper, the Growth Return of Infrastructure in Latin America, Sergi Lanau (2017). Improved infrastructure could yield large economic benefits. If the quality of infrastructure in Colombia increased to the sample median (Czech Republic), GDP growth would increase by about 0.1%.
[5] President XI Jinping introduced it during his meeting with Argentina's President Mauricio Macri on the sidelines of the 2017 Belt and Road Forum, and included it in the Special Declaration on the Belt and Road signed during the Second China-CELAC Ministerial Forum in January 2018.

Panel Session 4: Reinventing Multilateralism?

RULES OF THE GAME FOR THE NEXT DECADE

Chair **Shigeo Katsu**, **President of Narzarbayev University**

- **Vladimir Yakunin** – Founder and President of the Research Institute, "Dialogue of Civilizations"
- **Harold James –** Professor, Princeton University
- **Harinder Kohli –** CEO and President, Centennial Group and Emerging Markets Forum
- **Ahmed**
- **Alfred Gusenbauer –** Former Chancellor of Austria

Following on the previous sessions, the fourth one tackled multilateralism. The world is entering a new era. Multilateralism, chosen in the postwar world is undergoing a phase of transition and needs to be reassessed. While the United States are withdrawing from international governance, China is transitioning from a follower of international rules to an architect of the international order. Since all fields (politics, economy, finance, etc.) are interconnected, a global dialogue is necessary to make decisions. Multilateral institutions must evolve and guide information to solutions to global issues.

In the new era, emerging markets represent 80% of the population and over 50% of the global GDP. Multilateralism has helped emerging markets to develop and grow, at the (relative) expense of developed countries. China is now a major player. Likewise, India is becoming an unquestioned power that will develop even more in the next 10 years. A change in balance of power has occurred; the West is not the only player and decision-maker anymore. Thus, multilateralism is turning into a new phase in which no country has a monopole; however, multilateralism is not dying. The system needs improvements because it does not respond to the current needs[6]. One should acknowledge the shift: G7 will soon represent only 25% of global GDP while the East represents 70%. To Ahmed, the erosion of support to multilateralism comes from a failure of communication.

However, multilateralism increases political equality and strength, in a world where inequality remains an important issue. It is not only an instrument but also an end in itself (Gusenbauer). According to him, one should not forget that the US remain an unquestioned military power, and the largest by far. While China has gained economic supremacy, US supremacy remains in other fields. The US will continue to play an important role at the global scale. Finally, with the new US strategy, Latin American can see an opportunity to cut loose from the US and play a new role worldwide.

[6] Postwar institutions designed by winners of WWII are still ruling the world. G20, G7, IMF, WTO are all institutions that need to be redesigned

Tuesday September 4, 2018

Panel Session 5: Going Global with Real Assets

CASE STUDIES

- **Thilo Ketterer –** Partner, Rödl & Partner
- **Risto Murto** – Deputy Director-General of Networks Department for the Finnish Ministry of Transport and Communication
- **Changhui Zhao –** Chief Country Risk Analyst for Export-Import Bank of China
- **Feng Xingke,** Secretary General Center for BRICS and Global Governance

The session examined different examples of assets used to developing relations with other parts of the globe such as China's Belt and Road Initiative, the Nairobi-Mombasa Railway Project, India-Japan's Freedom corridor, the Khorgos to Pakistan Corridor and the Yiwu to Hamburg connection. The session was infrastructure-oriented and stressed that many projects are to be built and developed. For example, Murto declared that Finland is to become a hub for relations in Eurasia. Its good location, advantages and assets – notably trains and tunnels linking the North to Europe and to Asia – make it a strategic country for China. The Northeast Passage telecommunications cable (passing through Helsinki) is to be improved; it will result in a consequent decrease in telecommunication delays. Finland has other projects to come, like the Helsinki-Tallinn railway tunnel. It is crucial for each country to actively and strategically find a place in the infrastructure network today.

Key words of the session

Panda bonds: Bonds issues by a non-Chinese company to be traded in China – like a Yankee Bond in the US or a Samurai Bond in Japan. Belt and Road Bond.

Belt and Road Initiative: launched by Xi Lin Ping. A transport and logistic approach at first sight that is indeed much more comprehensive – strategic, global, financial, economic, infrastructure network – to increase China's economic influence and its power (geopolitical dimension).

Panel Session 6: Port Authority Roundtable

WHERE THE RUBBER MEETS THE ROAD: THE MARITIME DIMENSION

- **Iris Scheel –** Member of the Board of the Hamburg Port Authority
- **Massimo Deandreis –** General Manager, SRM (Economic Research Center related to Intesa Sanpaolo Group)
- **Zeno D'Agostino** – Head of the Port Authority, Trieste
- **Frans-Paul Van der Putten –** Senior Research Fellow, Netherlands Institute of International Relations

The session followed on the previous one, taking ports as an interest point. Ports remain strategic places, and Europe remains a road to China. European ports must follow the trends in shipping, although challenges are numerous. Indeed, containers tend to grow bigger and bigger for cost reductions. Thus, ports need new arrangements to avoid accidents. In northern Europe, the port of Hamburg ranks second of container ports worldwide. It has attracted China's interests in the 21-century silk road/BRI, which is an asset since BRI is already a reality and is growing. Hamburg will remain part of the initiative thanks to its location and its reliability as a partner in trade and in other fields – Science and Technology. It is important to increase in efficiency by increasing equality between partners and by reducing silo thinking/mentality[7].

Likewise, a new scenario is happening in the Mediterranean. China is increasing its interests in the Mediterranean with the BRI (New Suez Canal) because it is the crossing point between European markets, North Africa and the Middle East – with a potential opening to America. With the building of new routes, new ports are necessary. Italy can be a pivotal country in the Mediterranean. Thus, the port of Trieste (Northern Italy) has been changing its infrastructure approach to welcome big ships and be more included in the BRI.

As a conclusion, China has become a tremendously powerful player and a major investor. It resembles the US and the UK in older times with the difference that China is clearly showing its interest as a state in the development of Chinese companies (almost state companies[8]). In each region, countries want to be part of the BRI, which is currently growing and will soon be ruling the infrastructure and economic network.

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[7] Silo mentality is a mind-set present in some companies when certain departments or sectors do not wish to share information with others in the same company. This type of mentality will reduce the efficiency of the overall operation, reduce morale, and may contribute to the demise of a productive company culture.

[8] Chinese government finances up to 40% of Chinese companies to keep control on them. Some Chinese companies are major players and own the majority stake in several ports in Europe (for instance in Bilbao, Spain). Look for the name of the Chinese company that bought two of the top 10 shipping companies in China and Honk Kong – Cusco?

Panel Session 7: Artificial Intelligence and Big Data: A New Source of Geopolitical Power or Ethical and Regulatory Divergence?

A FUNDAMENTAL SHIFT?

Chair: **Petre Roman** – Professor at the University Politechnica Bucharest, and Former Prime Minister of Romania

- **Martin Weis** – GSA Intelligent Automation Leader and Partner at EY
- **Susanne Chishti –** CEO of FINTECH Circle and FINTECH Circle Institute
- **Peter Dabrock** – Professor, University of Erlangen Nuremberg and Chair of the German Ethic Council (absent)
- **James**
- **Axelle Lemaire** Partner, Roland Berger. Confirmed
- **Lord Richard Allen** – Vice President Public Policy, Facebook (absent)

The world is currently experiencing a new technology era. Automation and artificial intelligence are changing the nature of economic activities. Eight of the world's most highly valued companies are technology ones. Artificial intelligence and big data will rule the next phase of globalization. Technology raises questions of ethics and regulations as well as questions on their impact on geopolitical issues.

While Mr. James declared in another panel discussion that "Industrial Revolution led to less physical labor, making humans weaker and that AI revolution led to less mental labor, making humans stupider", the panelists of the session were all enthusiastic about AI.

It is clear that technology reached any fields. 40% of the companies are said to be at risk of being displaced because a lack of equipment for future algorithm. Thus, companies need to be more flexible to adapting[9]. For example, Fintech companies are startups reinventing Finance. Indeed, since change in Finance is hard especially for big companies, co-creation between startups and big companies is becoming a trend. Even further, any field is impacted: medicine because medical services become better and cheaper, education, and so on. Data is the new foundation.

However, one should not forget to look at technology as an asset, able to bring up added value. Thus, the question "What for?" is crucial for innovation to benefit the society. Assessing new rules regarding technology is crucial, in terms of privacy, protection, transparency of algorithms. Policies should not be launched without considerations of value (Lemaire). According to Mrs. Lemaire, technology and AI could create jobs and even help fight climate change if used in the right track.

As a conclusion, IA and technology will keep growing in the future, while questions of ethics remain.

[9] For instance, Nokia crashed because the Iphone came into the market. Bill gates declared "don't let yourself be lulled into inaction"

Panel Session 8: The Future of the Labor Supply

WHO WILL WORK AND UNDER WHAT CIRCUMSTANCES?

Chair: **Henning Vöpel** – Director, Hamburg Institute of International Economics *(confirmed)*

- **Benjamin Pring –** Partner of Cognizant
- **Andrea Komlosy –** Professor in the Department of Economic and Social History, University of Vienna
- **Heikki Hiilamo** – Research Professor at the University of Helsinki
- **Timo Boppart –** Assistant Professor, Institute for International Economic Studies at Stockholm University
- **Björn Böhning –** Secretary of State, Federal Ministry of Labor and Social Affairs Germany (absent)

The labor market as well as all forms of work in general have suffered dramatic transformation with rapid technological advances automating work and increasing artificial intelligence. The evolution has renewed long-lasting debates on basic income[10]. On the topic, two main approaches exist: the neo liberal one in which an individual gets little money and need extra to live, or the communist one in which an individual gets enough money to not be forced to work.

While it seems that people in Europe support the idea of a basic income, it has not been designed. Many questions remain, such as whether it should be universal or whether it raises economic inequality. Nevertheless, it could be part of the solution of globalization. Moreover, it is highly possible that the combination of paid and non-paid work will evolve since hours worked per worker have been decreasing since 1870. Robots have become a form of capital good. While some believe that automation is eliminating jobs, Pring declared that human imagination is endless meaning that new jobs will always be created. Automation remains an asset, work remains an important component of human development; the combination of both is possible.

[10] Already highly discussed in the US in the 1970's and in Europe in the 1980's

Panel 9: HIGH LEVEL DIALOGUE – POLICY OPTIONS FOR INCLUSIVE GROWTH

(*session organized in cooperation with The* ***Council of European Development Bank***)

Chair: **Mahmoud Mohieldin** – Senior Vice President for the 2030 Development Agenda, United Nations Relations and Partnerships, The World Bank Group

- **Masood Ahmed –** President for Center for Global Development (other panel)
- **Ian Goldin** – Professor of Globalization and Development and Director of the Oxford Martin Program on Technical and Economic Change
- **Romano Prodi –** Former Prime Minister of Italy
- **Aleksander Kwasniewski –** Former President of Poland
- **Rolf Wenzel** – Governor of the Council of Europe Development Bank
- **Erik Berglof,** Director of the Institute of global Affairs , London School of Economics

The session finds its roots in all the previous discussions. While globalization and the change in labor market are realities, debates on how to promote life-long learning, on educational equality, or on new tax and redistribution policies are flourishing. It is necessary to adapt policies to ensure an inclusive growth and economy.

The OECD defines inclusive growth as equality of outcomes - enabling access to economic activity (education, formation), equality of opportunities – enabling participation to economic activity (fairness), and process in decision-making. In today's world, each country, region or city is suffering a dramatic rural exodus worsening inequality[11]. Moreover, the difference between elderly societies in the west and young societies in Africa will grow bigger.

According to Wenzel, including the population is a responsibility of the European Development Bank that finances education and furnishes expertise for the labor market. Inequality of gender, of origin, or of any other types should disappear to prevent waste of human resources and increase in efficiency. However, moving things is difficult and governments have struggled to coordinate their actions, even more with academics.

Nevertheless, Berglof declared that the population tends to complain about social situations while it also tends to think that the next generation will live better than them. Thus, with efforts in changing forms of work, it is possible to imagine a more inclusive growth.

[11] Dynamic cities grow while other regions become poorer and poorer

Panel Session 10: The New Reality of Emerging Markets

EMERGING MARKET PROSPECTS

Chair Marc Uzan , Director Reinventing Bretton woods committee

- **Mario Blejer –** Visiting Professor, Institute of Global Affairs LSE Former Governor CB Argentina.
- **Marouane El Abassi –** Governor, Central Bank of Tunisia
- **Abdulrahman Al Hamidy** Director General Chairman of the Board Arab Monetary Fund
- **Xingke**

In a changing global economy moving away from multilateralism and heading towards a scenario in which countries turn inwards, emerging markets could find new opportunities and modify their role. China, India, but also other emerging markets such as Argentina, Brazil, or Nigeria, seek new international trade and investment deals.

Although Argentina and Turkey are now suffering economic crises – in the public sector in Argentina and the private one in Turkey – the countries tend to increase their importance at a global scale. Argentina's issues of corruption and interventionist policies (before Macri's Presidency) remain worsening factors of the economy. The macroeconomic imbalance of social issues (70% of the budget), the devaluation of the currency (Peso), and the introduction of inflation targets by the government worsened the deficit. Today, the system lacks consistency, credibility and trust; foreign investments are low and central banks differ from the government views. Argentina has already suffered a similar crisis in 2001-2002 with similar consequences. A market change is necessary to make a change and maintain competitiveness while the economy gains energy. Argentina needs to face many issues but has concrete competitive advantages (for instance high export taxes on soybeans).

Moreover, other economies are seeing the current situation as an opportunity to penetrate global market. For instance, Tunisia, a small country of Maghreb countries but with strategic openings to Algeria, Syria and Europe, is modifying its strategy. Since the 2011 Arab spring, Tunisia has been facing many issues: political instability leading to important brain drain, the question of Democracy and its rescue at high costs[12], a decrease in tourism due to terrorist attacks, risks of increasing debts. Since 2014, Tunisia has been experiencing a better political stability but the economic situation remains problematic. The EU remains its most important partner[13] but Tunisia lost its second partner, Lybia, after the revolution in 2014. The Lybian crisis highly affected Tunisia regarding oil prices and production, leading to a budget deficit. Although Tunisia still faces important issues, it has stabilized inflation and has been experiencing growing investments. The political transition in 2019 with new elections might allow Tunisia to play a more important role in the region.

The role of Tunisia is all the more important so as it is in a region where social stability is crucial. Unemployment is high in the Arab world (more than 40% of the population is under 40). However, the banking sector in the Arab world is experiencing a period of growth. The Arab Monetary Fund aims at lending and introducing facilities like trade financing programs to facilitate intro Arabic trade and capacity building, especially since the 2012 rise in oil prices. The Arab world is finally aware of the importance of women financial participation, a challenge that needs to be taken up.

As a whole, other emerging markets such as BRICS are also experiencing gloomy periods, but opportunities grow bigger with the financial turmoil and US protectionism.

[12] Parliament is independent. Tunisia is a leader in terms of Democracy in the region

[13] with more than 35 billion dollars of export? – to check

Panel Session 11: New Age of Monetary Policy

The Global Financial Cycle, Normalization and Implications for Financial Stability

Chair

- **Sayuri Shirai –** Professor of Keio University, Former Bank of Japan Policy Board Member
- **John Fernald –** Professor of Economics, INSEAD
- **Julio Velarde** – Governor, Central Reserve Bank of Peru
- **Angel Estrada –** Executive Coordinator of International Affairs, Banco de España
- **Boris Vujčić –** Governor, Croatian National Bank
- **Nouriel Roubini –** Professor of Economics and International Business, NYU Stern School of Business, Chairman of Roubini Macro Associates

The world economy needs to tackle monetary normalization. Central banks currently have little margin to respond to a potential new crisis: the model the Federal Reserve is using to forecast inflation is backward looking and is unlikely to capture fast moving technological development. The situation is risky for monetary policy makers and the economy. New policies need to appear; more specifically central banks discuss raising inflation targets above the current 2% level. From an academic point of view (Shirai), the 2% target is feasible, but searching for a new monetary target is important. On the other hand, Roubini explained that, although changing inflation targets from 2% to 3-4% was difficult, achieve 2% was impossible. To him, the new normal is zero and powers should focus on fiscal policy instead of monetary policy even if it would create a risk of economic downturn[14]. However, Banco de España stressed the importance of the transmission monetary conditions. For instance, the Spanish model is centralized. The choice remains difficult for each central bank because it risks non-synchronized monetary policy adjustments[15] that could create financial instability and trade wars.

[14] An economic downturn, or a downturn, occurs when the value of stocks, property, and commodities fall; productivity either grows more slowly or declines, and GDP (gross domestic product) shrinks, stands still or expands more slowly.

[15] For instance, Turkey, Argentina or Venezuela have made policy mistakes creating crises

Panel Session 12: Central Banking and Creating a Stable Value Digital Currency

Chair: **Ousmène Jacques Mandeng** – Senior Fellow, London School of Economics

- **Michael Bordo –** Professor of Economics at the Rutgers University, and Senior Fellow, Hoover Institution
- **Aleksander Berentsen –** Professor, University of Basel
- **Jean-Pierre Landau –** Professor of Economics, Sciences Po Paris
- **Aleksi Grym –** Head of Digitalization, Bank of Finland
- **Daniel Heller –** Researcher, UCL

General Manager of the BIS, Agustin Carstens, asserted: "Money, is an indispensable social convention backed by an accountable institution within the State that enjoys public trust… Private digital tokens posing as currencies, such as bitcoin and other crypto-assets that have mushroomed of late, must not endanger this trust in the fundamental value and nature of money."

Crypto-assets have pushed debates on money back into the agenda. Some of the important questions are: Should central banks issue digital currencies? Will they remain a relevant actor? Should money be centralized or decentralized? The session reminded that the role of central banks is to create money. The digital era questions the role and forms of money as well as the role of cash currencies[16].

Money has three basic uses: efficient medium of exchange, secure store of value and stable unit of account. It is important to make a difference between Digital currency and Virtual currency. The former is the electronic version of cash, created by central banks while the latter is a currency created by private entities such as bitcoins[17]. Central banks[18] have two options: either creating a Fedcoin decentralized virtual currency or creating a central bank electronic money for all. The first option of decentralizing something centralized is not feasible, leading to the second option as more probable. Establishing digital currency would improve effectiveness of payment systems, facilitate cross border financial transaction and transparency and reduce costs (since paper cash is costly).

However, central bank money disappears against virtual currency. The latter is an asset as a form of escaping the system, because no central entity maintains the database, or the currency and each user owns their data and rights. It is non-account-based, easy and anonymous but risky and not a full substitute to cash (problems of efficiency, value).

As a conclusion, cryptocurrencies make the debate on money a hot topic. However, it is crucial to use the good terminology in the topic (asset, money, currency, and so on) in order for future regulations to be clear and not biased.

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[16] In Sweden, the leader in terms of electronic payments, the use of cash currency plummeted from 10% to 2% recently

[17] Invented in 2008 by Nakamoto (through blockchain which is a stock and transmission technology with no organ of control of any type) that allowed for the first time a peer-to-peer payment on an electronic basis

[18] They créate money, whereas comercial Banks issue money

Panel Session 13: Can and Should Crypto Assets Enter the Mainstream of Global Finance?

Chair: **Xiaochen Zhang –** President, FinTech4Good

- **Baur Bektemirov,** Chief Economist Astana International financial center
- **Marieke Flament –** Managing Director, Circle
- **Yinming Pang – Chairman and President, Linkeychain Intelligent Technology**
- **Tone Vays –** Co-Host, Crypto Scam Podcast and Blockchain Consultant, Liberty Life Trail
- **Tara Waters –** Partner, Ashurst
- **Tuur Demeester –** Founder, Adamant Research
- **Ido Sadeh Man –** Founder and President of the Saga Foundation

The last panel session followed on with the previous one. The eight panelists were in favor of crypto assets. They considered that crypto-assets are an important new asset with tremendous possibilities that still need to be developed. One should not ignore the potential in a world where technology leads each new development. However, the question remains whether or not crypto currencies can enter the mainstream of global finance. Although they present potential at hand like non-seizing, they also present risks at play. Regulation, volatility, efficiency, privacy and security remain issues to improve in the future.

Crypto currencies might be a crucial asset in countries where governments are suffering crises, such as Cyprus, Greece, Zimbabwe or Venezuela. In Latin America, corruption and other issues imply a low credibility in governments. Crypto-currencies could represent an alternative for the populations. Should it?

Finally, the panel has slightly reminded that crypto currencies involve huge amounts of computing power and a network of servers on which to store shared date. The environmental impact is consequent. Technology cannot always take priority over the protection of the planet. Efforts regarding the environment are to be taken (Flament).