Globalization, National Sovereignty, and International Standard-Setting

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Regional Conference on Banking, Accounting and Finance
Santiago, Chile – 4 April 2019
In A Nutshell

• Uncertainties about future of globalization
• Global financial standards immune so far
• Global governance cannot stand still
Globalization: Uncertain Times

• United States: Trump Administration
  – Exit of TPP & Paris Accord, NAFTA revision, tariffs
  – Parenthesis, self-isolation, or rogue actor?

• European Union: euro crisis, Brexit
  – Inward-looking, beleaguered, mercantilist impulses
  – New trade agreements; post-crisis assertiveness?

• China: Xi Jinping’s domestic clampdown
  – Aggressive neighbor in South China Sea
  – Open-economy rhetoric; new realism on Belt & Road?
Financial Globalization Lives On

**Peak global trade and banking?**

**As a percentage of world GDP**

Graph 1

**Consolidated foreign claims, by banking system**

**As a percentage of world GDP**

Graph 4

**European banks**

**Non-European banks**

Gaps in the plotted series indicate breaks in series reflecting, for example, bank mergers or changes in the reporting population. Country codes denote the nationality of banks.

AU = Australia; BE = Belgium; CA = Canada; CH = Switzerland; DE = Germany; ES = Spain; FR = France; GB = United Kingdom; IT = Italy; JP = Japan; NL = Netherlands; US = United States.

Source: IMF World Economic Outlook; BIS locational banking statistics; BIS consolidated banking statistics.

**Banks’ external claims by location and consolidated foreign claims by nationality**

Graph 5

**European banks shed assets outside their home countries**

Graph 7

1. The selected European banks are banks headquartered in Austria, Belgium, Denmark, France, Germany, Italy the Netherlands and Switzerland.
2. The lines show the share of selected European banks' total cross-border claims that are booked by banks offices in home countries, both including intragroup positions (red line) and excluding these positions (blue line).
3. Cumulative change in cross-border claims booked by all banks other than the selected European banks; includes claims booked in home offices and offices abroad.
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Source: BIS locational banking statistics.
Global Financial Standards

• International Financial Reporting Standards (IFRS)
  – IASB / IFRS Foundation, since 1973/2001

• Basel Accords on bank capital (& liquidity)
  – BCBS, since 1974/1988

• G20 derivatives market reforms
  – G20 / FSB mandates, since 2009

• Bank resolution regimes ("ending TBTF")
  – FSB key attributes and implementation, since 2011/14
IFRS: increasingly global

- Required in most countries
- “Substantial convergence” in CN, ID, IN
- Optional use in Japan: highly successful
- US an outlier

- IFRS for SMEs: Latin America in lead
Basel Accords: More Demanding

• Minimum requirements
• For internationally active banks

• Basel III broader, tighter than Basel II
  – Compliance is generally better (not least US)

• Robust process of compliance assessment
  – Regulatory Consistency Assessment Program, started 2012
Derivatives: Missing Standards

• Disclosure: DTCC Global Trade Repository

• Half-baked reform in 2009
  – Trade reporting mandate
  – But no uniform data formats
  – Multiple trade repositories in some jurisdictions (EU)
  – Aggregation a distant dream, ten years after decision

• Illustrates critical importance of global standard-setting
Resolution: Uncertain Future

- Regime change in most jurisdictions
- But new framework mostly untested

Source: S&P Global Ratings. ALAC = Additional Loss-Absorbing Capacity
Sovereignty Frictions

• IFRS: accounting as economic policy
  – e.g. banks’ mark-to-market losses, stock options

• Basel: bank-sovereign linkages
  – Financial repression, banking nationalism

• Derivatives: agencies’ turf, special interests

• Resolution: bank-sovereign links + uncertainty about effect of market discipline
  – Highly dependent on banking sector structures
A New Era?

• Apparent nationalist momentum
  – Brexit vote, Trump, Bolsonaro…
  – But limited trend clarity

• Damage to global policy frameworks
  – Trade
  – Climate policy
  – Internet infrastructure?

• Financial sector comparatively insulated
  – US & Basel III; Randal Quarles at FSB

• But will the next crisis be like the last one?
Prospects

• High path-dependency
  – Global consistency gains made in earlier eras can be difficult to untangle: e.g. IFRS

• Governance arrangements need to adapt
  – Fast-changing international environment
  – e.g. IFRS Foundation funding; BCBS/FSB membership

• Where will leadership come from?
  – Ideally, orderly transformation in calm times
  – Crisis scenarios
“The world today does not have enough international institutions that can confer legitimacy on collective action, and creating new institutions that will better balance the requirements of legitimacy and effectiveness will be the prime task for the coming generation.”

Francis Fukuyama, America at the Crossroads, 2006
Thank You For Your Attention

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