Urgency of a New Regional Financial Architecture and more policy space for financial, macroeconomic and social stability

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Ecuador

The relationship between financial services liberalization, the regulatory framework and financial stability
WORKSHOP ON TRADE IN FINANCIAL SERVICES AND DEVELOPMENT
WTO, Geneva, 26 June, 2012
Financial and trade liberalization: decades of modernization, differentiated growth and instability
Could the genius get back to the bottle?

US Growth of financial and nonfinancial profits relative to GDP

(1970 = 100)

http://www.monthlyreview.org/081201foster-magdoff.php
Global GDP = 63” vs. “Normal Debts” = 212” vs. Financial Derivatives = 1500”

Global financial stock has surpassed pre-crisis heights, totaling $212 trillion in 2010

Global stock of debt and equity outstanding$ trillion, end of period, constant 2010 exchange rates

1. Based on a sample of 79 countries.
2. Calculated as global debt and equity outstanding divided by global GDP.

NOTE: Numbers may not sum due to rounding.

SOURCE: Bank for International Settlements; Dealogic; SIFMA; Standard & Poor’s; McKinsey Global Banking Pools; McKinsey Global Institute analysis
Each time, more acute cycles of speculative and not physical investment.
Unsustainable balance sheets make up

### Swings in valuation levels are responsible for most of the fluctuations in global equity outstanding

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Global Equity Outstanding</th>
<th>Compound Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-09</td>
<td>11.8 trillion, end of period, constant 2010 exchange rates</td>
<td>8.1%</td>
</tr>
<tr>
<td>2009-10</td>
<td>24.5 trillion, end of period, constant 2010 exchange rates</td>
<td>11.7%</td>
</tr>
</tbody>
</table>

#### Market-to-book multiple

<table>
<thead>
<tr>
<th>Year</th>
<th>Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>1.8</td>
</tr>
<tr>
<td>1992</td>
<td>2.2</td>
</tr>
<tr>
<td>2000</td>
<td>2.9</td>
</tr>
<tr>
<td>2007</td>
<td>2.3</td>
</tr>
<tr>
<td>2008</td>
<td>2.4</td>
</tr>
<tr>
<td>2010</td>
<td>1.8</td>
</tr>
</tbody>
</table>


**NOTE:** Numbers may not sum due to rounding.

**SOURCE:** Standard and Poor's; Datastream; Bloomberg; McKinsey Corporate Performance Analysis Tool (CPAT); McKinsey Global Institute analysis.
Financial Hegemony Geopolitics

The web of cross-border investments in 1999...

Lines show total value of cross-border investments between regions*, 1999
Figures in bubbles show size of total domestic financial assets, $ billion

- 0.5-1% of world GDP
- 1-5% of world GDP
- 5-10% of world GDP
- 10%+ of world GDP

World GDP, 1999 = $31 trillion

* Includes total value of cross-border investments in equity and debt securities, lending and deposits, and foreign direct investment.

Source: McKinsey Global Institute analysis
Financial Hegemony Geopolitics

...had grown significantly stronger by 2007
Lines show total value of cross-border investments between regions*, 2007
Figures in bubbles show size of total domestic financial assets, $ billion

US 61,194
Western Europe 52,435
Russia, Eastern Europe 5,070
Emerging Asia 21,762
Middle East, rest of world 5,594
Latin America 5,939
Japan 20,089
Hong Kong, Singapore, Taiwan 4,379
Australia, New Zealand, Canada 8,530

* Includes total value of cross-border investments in equity and debt securities, lending and deposits, and foreign direct investment.
Source: McKinsey Global Institute analysis
During the crisis, the South's public external debt has risen in 20%.

Out of 37 million corporations in Orbis 2007, only 43060 TNC control the fundamental and are interlocked by ownership relationships. 1318 of them produce 60% of the global GDP and only 147 the 40%.
The larger 50 TNC (out of 147)

- 1. Barclays plc
- 2. Capital Group Companies Inc
- 3. FMR Corporation
- 4. AXA
- 5. State Street Corporation
- 6. JP Morgan Chase & Co
- 7. Legal & General Group plc
- 8. Vanguard Group Inc
- 9. UBS AG
- 10. Merrill Lynch & Co Inc
- 11. Wellington Management Co LLP
- 12. Deutsche Bank AG
- 13. Franklin Resources Inc
- 14. Credit Suisse Group
- 15. Walton Enterprises LLC
- 16. Bank of New York Mellon Corp
- 17. Natixis
- 18. Goldman Sachs Group Inc
- 19. T Rowe Price Group Inc
- 20. Legg Mason Inc
- 21. Morgan Stanley
- 22. Mitsubishi UFJ Financial Group Inc
- 23. Northern Trust Corporation
- 24. Société Générale
- 25. Bank of America Corporation
- 26. Lloyds TSB Group plc
- 27. Invesco plc
- 28. Allianz SE
- 29. TIAA
- 30. Old Mutual Public Limited Company
- 31. Aviva plc
- 32. Schroders plc
- 33. Dodge & Cox
- 34. Lehman Brothers Holdings Inc*
- 35. Sun Life Financial Inc
- 36. Standard Life plc
- 37. CNCE
- 38. Nomura Holdings Inc
- 39. The Depository Trust Company
- 40. Massachusetts Mutual Life Insurance
- 41. ING Groep NV
- 42. Brandes Investment Partners LP
- 43. Unicredito Italiano SPA
- 44. Deposit Insurance Corporation of Japan
- 45. Vereniging Aegon
- 46. BNP Paribas
- 47. Affiliated Managers Group Inc
- 48. Resona Holdings Inc
- 49. Capital Group International Inc
- 50. China Petrochemical Group Company
Various myths had been destroyed:
Fresh theoretical discussions
Historical matrix of dependency and specificities of Neo-liberalism and financialization in Latin America
The historical matrix of dependency

• LA place in the division of labor since the conquest by the European metropolis created a trade structure and a trend still ruling most of LA economy

• Macroeconomic and financial dependency structured a virtual “dollar bloc” during the 20th century, with varying articulations:
  – Bretton Woods (1944): ISI and “Keynesian” institutions
  – Dollar floating (1968-1973): invisible or iron hand?
  – External debt crisis (from 1982): orthodoxy’s blackmail
  – ”Washington Consensus” (1990): structural reforms

• Erosion of money functions and policy space reduction
Significant reduction in the rate of investment (physical, “natural” and “human” capital)

LATIN AMERICA: RATE OF INVESTMENT- GDP

IMPORT SUBSTITUTION INDUSTRIALIZATION REGIME OF ACCUMULATION

FINANCIARIZED REGIMEN OF ACCUMULATION

Fuente: CEPAL (2008)
Investment in infrastructure

Latin America *: investment in infrastructure 1980-2006
As a percentage of GDP

FINANCIARIZED REGIME OF ACCUMULATION

The road capacity is insufficient.
Shortage of competitive rail services

*Argentina, Brasil, Chile, Colombia, México y Perú

CEPAL,2011
Share of compensation of employees in national income, selected country groups, 1980 - 2008

FINANCIARIZED REGIMEN OF ACCUMULATION
Share of compensation of employees in national income, selected country groups, 1980 - 2008

FINANCIARIZED REGIMEN OF ACCUMULATION
De-industrialization, job precarization and increasing social polarization

LATIN AMERICA: POVERTY AND INDIGENCE EVOLUTION 1980-2008

Percentages

Population

Fuente: CEPAL (2008)
...with a 15% increase in the number of indigents...

LATIN AMERICA: POVERTY AND INDIGENCE EVOLUTION 1980-2008

Percentages

Population

2008b/= Proyectadas

Fuente: CEPAL (2008)
...and 34% growth in the amount of poor people...

LATIN AMERICA: POVERTY AND INDIGENCE EVOLUTION 1980-2008

Percentages

Population

2008b/= Proyectadas

Fuente: CEPAL (2008)
Some mitigation with the progressive governments

LATIN AMERICA: POVERTY AND INDIGENCE EVOLUTION 1980-2008

Percentages

Population

2008b/= Proyectadas

Fuente: CEPAL (2008)
Austerity meant a sharp and continuous increase of poor people

Not only social polarization but...

LATIN AMERICA: GDP, EXTERNAL AND FISCAL BALANCES
IN RATES OF GROWTH AND PERCENTAGES OF GDP 1950-2010

FINANCIARIZED REGIME OF ACCUMULATION

IMPORT SUBSTITUTION INDUSTRIALIZATION REGIME OF ACCUMULATION
Not only social polarization but...

LATIN AMERICA: GDP, EXTERNAL AND FISCAL BALANCES
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FINANCIÁRIZED REGIME OF ACCUMULATION

IMPORT SUBSTITUTION INDUSTRIALIZATION REGIME OF ACCUMULATION
...a poorer productive performance...

LATIN AMERICA: GDP, EXTERNAL AND FISCAL BALANCES
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FINANCIARIZED REGIME OF ACCUMULATION

IMPORT SUBSTITUTION INDUSTRIALIZATION REGIME OF ACCUMULATION
LATIN AMERICA: GDP, EXTERNAL AND FISCAL BALANCES IN RATES OF GROWTH AND PERCENTAGES OF GDP 1950-2010

STAGNATION AND VOLATILITY
Poorest performance even in their own terms...

LATIN AMERICA: GDP, EXTERNAL AND FISCAL BALANCES
IN RATES OF GROWTH AND PERCENTAGES OF GDP 1950-2010
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LATIN AMERICA: GDP, EXTERNAL AND FISCAL BALANCES
IN RATES OF GROWTH AND PERCENTAGES OF GDP 1950-2010
...with higher levels of vulnerabilities

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LATIN AMERICA: GDP, EXTERNAL AND FISCAL BALANCES
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More dependent from the international markets
Terms of trade 1900-2008

Fuente: BANCO MUNDIAL (2009)
...And the outflow of resources

Net outflows of Latin America and the Caribbean: foreign direct investment (In millions of US dollars)

[Graph showing net outflows and phases of the economy]

FINANCIARIZED REGIME OF ACCUMULATION

Deregulation of the Economy

CEPAL, 2011
Weakening of international insertion quality

IMPORT SUBSTITUTION INDUSTRIALIZATION REGIME OF ACCUMULATION

FINANCIARIZED REGIME OF ACCUMULATION

Index of Latin American share of imports in GDP

Index of labour productivity in the Latin American manufacturing
Weakening of international insertion quality

IMPORT SUBSTITUTION INDUSTRIALIZATION REGIME OF ACCUMULATION

FINANCIARIZED REGIME OF ACCUMULATION

Index of Latin American share of imports in GDP
Index of labour productivity in the Latin American manufacturing
Weakening of international insertion quality

Index of Latin American share of imports in GDP
Index of labour productivity in the Latin American manufacturing
...based on a problematic international insertion to the global economy

LATIN AMERICA: FISCAL REVENUES AND EXPORT PRICES

Fuente: CEPAL (2007)
Latin America role in the cojuncture: lending cheap and borrowing dear
Potential crisis vectors on Latin America: Jeopardizing mechanisms in a robust economy
Potential crisis vectors on Latin America

Exports contraction
(prices and quantities)
Potential crisis vectors on Latin America

- Exports contraction (prices and quantities)
- Trade related credit crunch
Potential crisis vectors on Latin America

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- Commodity bubbles, external and fiscal uncertainty and instability
Potential crisis vectors on Latin America

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- Commodity bubbles, external and fiscal uncertainty and instability
- Balance of payments crisis recurrent “angst for dollars” effects
Potential crisis vectors on Latin America

- Speculative attacks and permanent devaluatory pressures
- Balance of payments crisis recurrent "angst for dollars" effects
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- Pervasive short termism and predatory speculation in the financial sector
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- Negative expectations on loans repayment (credit supply/demand)
- Bank erosion and bad private productive investment environment
- Animal spirits down
Potential crisis vectors on Latin America

- Exports contraction (prices and quantities)
- Trade related credit crunch
- Commodity bubbles, external and fiscal uncertainty and instability
- Speculative attacks and permanent devaluatory pressures
- Transnational shyphon out effects
- Balance of payments crisis recurrent "angst for dollars" effects
- Real wage reduction and budget cuts
- Pervasive short termism and predatory speculation in the financial sector
- Bank erosion and bad private productive investment environment
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Speculative attacks and permanent devaluatory pressures

Balance of payments crisis recurrent “angst for dollars” effects

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Transnational shyphon out effects

Pervasive short termism and predatory speculation in the financial sector

Bank erosion and bad private productive investment environment

Real wage reduction and budget cuts

Negative expectations on loans repayment (credit supply/demand)

Animal spirits down

Financial-economic crisis

Pervasiveshort termism and predatory speculation in the financial sector

Financial-economic crisis

Bank erosion and bad private productive investment environment

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Balance of payments crisis recurrent “angst for dollars” effects

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Negative expectations on loans repayment (credit supply/demand)
The Ecuadorian Proposal for a New Regional Financial Architecture
The Ecuadorian Proposal for a New Regional Financial Architecture
New Regional Financial Architecture

A new-type-of-development bank
New Regional Financial Architecture

A new-type-of-development bank

New Central Banking (network)
New Regional Financial Architecture

- A new-type-of-development bank
- New Central Banking (network)
- System of payments compensation (Clearance Union)
New Regional Financial Architecture

- A new-type-of-development bank
  - Banco del Sur, Banco del Alba

- New Central Banking (network)

- System of payments compensation (Clearance Union)
New Regional Financial Architecture

- A new-type-of-development bank
- Banco del Sur
- System of payments compensation (Clearance Union)
- A new type of development bank
New Regional Financial Architecture

- UNASUR (CELAC ?)’s Financial Instrument (Councils of Ministers)
- A new type of development bank
- Banco del Sur
- System of payments compensation (Clearance Union)
New Regional Financial Architecture

UNASUR (CELAC ?)'s Financial Instrument (Councils of Ministers)

A new type of development bank

Banco del Sur

Souverain systems of credit and mobilization of divises, national and regional currencies

System of payments compensation (Clearance Union)
New Regional Financial Architecture

UNASUR (CELAC ?)’s Financial Instrument (Councils of Ministers)

Banco del Sur

A new type of development bank

Souverain systems of credit and mobilization of divises, national and regional currencies

New epistemologic and axiologic parameters (internalization of externalities in indicators, code of ethics, CSR, etc)
New Regional Financial Architecture

A new-type-of-development bank

Banco del Sur

A new type of development bank

System of payments compensation (Clearance Union)
New Regional Financial Architecture

A new-type-of-development bank

Banco del Sur

System of payments compensation (Clearance Union)

A new type of development bank

A bank for a new type of development
New Regional Financial Architecture

- Food Sovereignty
- A new-type-of-development bank
  - Banco del Sur
- System of payment compensation (Clearance Union)
- A new type of development bank
  - A bank for a new type of development
New Regional Financial Architecture

- Food Sovereignty
- Health Care Sovereignty
- Banco del Sur
- System of payments compensation (Clearance Union)

A new type of development bank
A bank for a new type of development
New Regional Financial Architecture

Food Sovereignty
Health Care Sovereignty
Energy Sovereignty

A new type of development bank

A bank for a new type of development

System of payments compensation (Clearance Union)
New Regional Financial Architecture

- Food Sovereignty
- Health Care Sovereignty
- Energy Sovereignty
- Knowledge Production Sovereignty

System of payments compensation (Clearance Union)

A new type of development bank

A bank for a new type of development
New Regional Financial Architecture

- Food Sovereignty
- Health Care Sovereignty
- Energy Sovereignty
- Knowledge Production Sovereignty
- Natural Resources Sovereignty

Banco del Sur

System of payments compensation (Cleareance Union)

A new type of development bank

A bank for a new type of development
New Regional Financial Architecture

- Food Sovereignty
- Health Care Sovereignty
- Energy Sovereignty
- Knowledge Production Sovereignty
- Natural Resources Sovereignty
- Infrastructure Sovereignty

A new type of development bank

A bank for a new type of development

System of payments compensation governance
New Regional Financial Architecture

- Food Sovereignty
- Health Care Sovereignty
- Energy Sovereignty
- Knowledge Production Sovereignty
- Natural Resources Sovereignty
- Infrastructure Sovereignty
- Popular Economy

A new type of development bank

Banco del Sur

System of payments compensation (Clearance Union)

A bank for a new type of development
New Regional Financial Architecture

A new-type-of-development bank

Banco del Sur, Banco del Alba

New Central Banking (network)

System of payments compensation (Clearance Union)
New Regional Financial Architecture

- A new-type-of-development bank
  - Banco del Sur, Banco del Alba
- New Central Banking (network)
  - Fondo del Sur
- System of payments compensation (Cleareance Union)
New Regional Financial Architecture

Sovereign Management of Liquidity

A new-type-of-development bank

Banco del Sur, Banco del Alba

Fondo del Sur

New Central Banking (network)

System of payments compensation (Clearance Union)
New Regional Financial Architecture

- Sovereign Management of Liquidity
- Multilateral Swaps Matrix
- New Central Banking (network)
- Fondo del Sur
- System of payments compensation (Clearance Union)
- Sur, Banco del Alba
New Regional Financial Architecture

- Sovereign Management of Liquidity
- Multilateral Swaps Matrix
- Emergency Facility for Balance of Payments
- New Central Banking (network)
- System of payments compensation (Clearance Union)
- Fondo del Sur
New Regional Financial Architecture

- Sovereign Management of Liquidity
- Multilateral Swaps Matrix
- Emergency Facility for Balance of Payments
- Emergency Facility for Treasuries

System of payments compensation (Clearance Union)

New Central Banking (network)

Fondo del Sur
New Regional Financial Architecture

- Sovereign Management of Liquidity
- Multilateral Swaps Matrix
- Emergency Facility for Balance of Payments
- Emergency Facility for Treasuries
- New System of regional Reserves

Fondo del Sur

New Central Banking (network)

System of payments compensation (Clearance Union)
New Regional Financial Architecture

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- Multilateral Swaps Matrix
- Emergency Facility for Balance of Payments
- Emergency Facility for Treasuries
- New System of regional Reserves

Fondo del Sur

New Central Banking (network)

- Special drawing rights (global and regional ones) s
- Physical gold and natural resources
- Divises
- National and regional currencies
New Regional Financial Architecture

- A new-type-of-development bank
  - Banco del Sur, Banco del Alba

- System of payments compensation
  - (Clearance Union)

- New Central Banking (network)
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New Regional Financial Architecture

- A new-type-of-development bank
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- Regional fiduciary currency
- System of payments compensation (Clearance Union)
- New Central Banking (network)
New Regional Financial Architecture

- Micro-regional fractal reproduction
  Net of networks for local and regional circuits of settlements

- Fondo del Sur

- Regional fiduciary currency

- System of payments compensation (Clearance Union)

- New Central Banking (network)
New Regional Financial Architecture

**Micro-regional fractal reproduction**
Net of networks for local and regional circuits of settlements

**Macro-regional fractal reproduction**
New type of North-South negotiations and new options for South–South cooperation mechanisms (swaps and credit)

Regional fiduciary currency

System of payments compensation (Clearance Union)
New Regional Financial Architecture

A new-type-of-development bank: Banco del Sur, Banco del Alba

Fondo del Sur

New Central Banking (network)

Regional fiduciary currency

System of payments compensation (Clearance Union)
Real Policy Space for all countries assuring universal right to work

• Convergence towards a new Bretton Woods:
  – Global protection of production-related finance separated from speculative one (Glass-Steagall)
  – Bloc regional monetary arrangements (regional SDR) + global SDR as lender of last resource
  – Capital controls and financial re-regulation
  – Universal ban on naked short selling and CDS
  – Universal Tobin Tax
  – Free excess international reserves for development
Thanks