Notes for Diaoyutai Dialogue Between American and Chinese Economists

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1. The current global financial and economic crises were caused by the burst of US asset bubbles. The burst of bubbles led to credit crunch, which in turn led to economic recession in the United States. The financial crisis and economic crisis in the US spilled over to the rest world via trade and capital flow channels. The reduction in demand for imports in the US caused a dramatic fall of exports and hence a dramatic fall of growth in export-orientated countries, especially in East Asia. The fall of exports and growth led to increase in unemployment and worsening of living standards in developing countries.

2. The direct causes of the global financial crisis include over-securitization, over-leverage, and greed- motivated rampant speculation. The lax in supervision and regulation are responsible for allowing these abusive activities running amok. From a macroeconomic perspective, the formation of the US housing bubbles was attributable to low interest rates in the United State. The Fed is blamed for having kept the interest rates too low for too long. However, Greenspan argued not without reason, that the interest rate that matters is not the federal-funds rate, but the rate on long-term, fixed-rate mortgages. There is no doubt that persistent large capital inflows into the US, which lowered cost of financing, facilitated the creation of the frothy assets markets. This implies that global imbalances have played an important role in the formation of housing bubble.

3. In history, there are plentiful examples of countries running current account deficit persistently without causing currency crisis and financial crisis.[1] As long as international investors believe that the high returns can more than compensate the risks in the recipient countries, foreign capital will continue to flow into these countries. But how long this confidence can be maintained is indeed a question extremely difficult to answer.

4. For many American economists, the real danger does not lie in the US current account deficit per se, but that it lies in the perception of the deficit. Hence, for the US, the foremost danger perhaps is the possibility that, owing to the waning confidence in the sustainability of the US current account deficit, Asian central banks diversify their foreign reserves away from the dollar assets in a disorderly manner. The direct consequence of the increase in the US current account deficit

[1]The Royal Bank of Scotland Group, 2004, "Global imbalances and the dollar: where next?", lucy.o'carroll@rbs.co.uk, 2 December 2004.

is largely psychological. "The larger the current account deficit becomes, the greater the number of observers who believe that a correction, and one with significant implications for the U.S. economy, is imminent. Such expectations have contributed to, and in turn have been reinforced by, the slide in the dollar over the past few years."[2]

5. Before the crisis, many economists believed that a day of reckoning was fast approaching when foreigners were no longer be willing to add to their already large net accumulations of US based assets. When this happens, there would be a cut-off in capital inflows and a sudden rise in US long-term interest rates, and the dollar would crash. However, this scenario failed to materialize. Instead, the long-term interest rates on US government securities are much lower and the dollar is stronger than just before the crisis. But I believe that the strengthening of dollar and the fall of interest rates are temporary. When the US economy turns around. Global imbalances will be brought back to the fore.

6. Because of the financial crisis, the world realized that the US financial system is flawed with serious problems. The high returns and low risks in the US financial market are illusive. Before the US subprime crisis, despite the accumulation of foreign debts by the US, international investors still poured their money in the US financial market, brushing aside the implications of the increasing foreign/Debt ratio. However, after the global financial crisis, foreign investors' confidence in the sustainability of US current account deficit and the US dollar has fallen dramatically. Other things being equal, when dust settles down, international investors will be much less likely to tolerate a high US foreign debt/GDP ratio.

7. In the next 4 years, the Obama government is going to sell 3.8 trillion (dollars) bonds. Countries that have lent to the US over the past two decades cannot help but to wonder if there is enough demand for these bonds in the future and what will be consequences on their government security holdings. With economic recession, whether US households will have the ability to digest the huge bond issuance is questionable.

8. Currently Federal Reserve is implementing a very expansive monetary policy, and the excessive reserve has increased from 3 billion to something like 800 billion. At this moment of crisis, perhaps the policy is OK. But when the US economy turns around, risk appetite increases, and people stop hoarding money, inflation can be very serious in the US. Credit countries know neither what the balance of demand for and supply of the US government securities will be, nor what the Fed's exit strategy is. The US government tried to assure the credit countries that their foreign exchange reserve is safe and US dollar will remain strong. However, so far the US government and the Fed have failed to show its

[2] "U.S. Current Account Deficit: Causes and Consequences", Remarks by Vice Chairman Roger W. Ferguson, Jr., To the Economics Club of the University of North Carolina at Chapel Hill, Chapel Hill, North Carolina, April 20, 2005.

credit countries in any details on how US policy responses to the global financial crisis can avoid leading to serious capital losses on the value of creditors' foreign exchange reserves. Nobody knows whether US government can resist the temptation to inflate away its debt burden. Devil is in the details. There are no details available. Its creditors' worry is legitimate. The US government must address these concerns in an earnest manner. Otherwise, a panic exodus from the US assets is likely, which in turn will cause huge instability to the global economy.

9. As a response to the threat posed by the global financial crisis and the US government's policy response to the crisis, China will adjust its structure of international balance of payment, in a way which will reduce the exposure of its dollar-denominated assets to the treble whammy: devaluation of the US dollar, fall of prices of US government bonds and inflation when the US economy start to turn around. As having mentioned earlier, the current global financial and economic crises were triggered by the burst of US asset bubbles. Global imbalances are a necessary condition for the formation of the US asset bubble. Without continuous foreign capital inflows into the US capital market, meaning without countries like China, Japan and the oil exporting countries continuously running current account surpluses against the US, the Fed would not be able to maintain the low interest rate policy for so long and the long-term yield curve would not be able to stay flat for so long. To blame China for the US subprime crisis is ridiculous. However, my personal view is that, "(the correction) of global imbalances not only depends on whether American can reduce its current account deficits but also on how the rest of the world, including China, will respond to the further worsening of US current account deficit. Consensus has been reaching that the twin surpluses are neither desirable nor sustainable for China. Therefore, since 2005 China has taken actions to correct its imbalances. As a matter of fact, in its 11th five year national reform and development program, it was stipulated that by the end of 2010, China would run a basically balanced trade account. Currently, despite of the interruption by the rapid fall of China's growth due to the rapid fall of external demand, eventually, China will take further action to correct its imbalances in international balance of payments. Due to the structural difficulties, the Chinese government found out that to correct the imbalances is easily said than done. For a certain period of time, China may have to continue to maintain a reduced but still significant amount of current account surplus, which mirrors America's difficulties in reducing its current account deficits in a short period time.

10. China will explore all available channels to rebalance its international balance payments. The rebalancing problems facing China can be divided into two categories: flow problem and stock problem. Put aside the problem of safeguard the value of its existing foreign exchange reserves (stock) for the time being, an important fact is that China's foreign exchange reserves are still increasing at an

annual rate of some 200 billion US dollar, compared with 400 billion US dollar in the pre-crisis period. Therefore, the more urgent task for the Chinese government is to reduce the increase in foreign exchange reserves. Only after China's foreign exchange reserves stop increasing, can China shift its attention to the existing stock of foreign exchange reserves. To achieve the objective of rebalancing, the most obvious channel is to run a more or less balanced current account or even a current account deficit, which in turn requires the deepening of structural adjustment to eliminate the savings-consumption gap, the reform of exchange rate formation regime to minimize government intervention in the foreign exchange market, and the elimination of export promotion policy which creates price distortion.

11. As regard with flow problem, there are two things China should do. First, China should reduce its twin surpluses by earnestly implementing the policy measures which have been already agreed upon. Among the policies, the key, of course, is to stimulate domestic demand, especially domestic consumption. The global financial crisis may already have produced some effects on the twin surpluses, which may or may not make the US government happier, because the reduction of China's twin surpluses automatically translate into less demand for US treasuries from China, which is badly needed by the US government. Because twin surplus has become structural, China will not be able to reduce twin surpluses, especially trade surplus in a short period of time.[3] Therefore, a key problem China has to tackle with head on is to translate China's twin surpluses into assets other than US treasuries. There are many avenues available for this objective. First, China will promote ((actually have promoted) outbound FDI in developing countries. China has powerful ability of infrastructure construction. For many developing countries, lack of infrastructures is the most important bottleneck for economic development. The potential returns on investment in roads, railways, and so on in developing countries in Africa, Latin America and some parts of Asia should be relatively high.[4]Second, China will continue to acquire more strategic resources and increase its reserves of strategic materials gradually. Third, China will be more actively engaged in M&A activities in the developed world. Fourth, China can be bolder in portfolio investment. Besides the US treasuries, holdings of other types of assets and assets denominated in currencies other than the US dollar should be increased. Fifth, China can increase lending to international organizations such as IMF. However, China's claims should be denominated in SDR or Reminbi. Similarly, China should seek to increase its contributions to the regional financial architecture based on Chiang Mai Initiative. Sixth, China should encourage foreign governments and corporations to issue Reminbi denominated bonds (Panda Bonds). China can also

[3] Due to constraint of space, this paper will not discuss the issue of how to reduce capital account surplus.
[4] According to a study, in recent years, a number of emerging economies have begun to play a growing role in the finance of infrastructure in Sub-Saharan Africa. Their combined resource flows are now comparable in scale to traditional Official Development Assistance (ODA) from Organization for Economic Co-operation and Development (OECD) countries or to capital from private investors. These emerging financiers include China, India, and the Gulf States, with China being by far the largest player.

encourage commercial banks to extend Reminbi denominated loans to foreign borrowers. Reminbi Funds thus raised by foreign entities can be used to buy dollars from Chinese entities. Seventh, the People's Bank of China can increase its currency swaps with foreign central bank. Eighth, China should increase its aid to poorest developing countries in the world. To implement any of above-mentioned policy measures, international coordination is indispensable.

12. The current global financial and economic crises were triggered by the burst of US asset bubbles. Global imbalances are a necessary condition for the formation of the US asset bubble. China's persistence of twin surpluses is neither in the long term interest of itself. The global financial crisis and the US government's responses to the crisis have added a new dimension to the issue of rebalancing of the Chinese economy. China's twin surpluses are not just a matter of misallocation of resources but also a matter of capital losses. As pointed out by some observers, all policy options aimed at safeguarding for the People's Bank of China (PBOC) are unattractive. If the PBOC does nothing and simply hold on to the dollars, the losses will increase. If it buys more to prop up the dollar, it will only have a bigger version of the same problem in the future. If, on the contrary, the PBOC diversifies into other currencies, they will drive down the dollar faster and create greater losses.

13. What can China do to safeguard the value of its hard earned foreign exchange reserves? To correct the misallocation of resources embedded in the persistent twine surpluses and to reduce the possible capital losses of China's foreign exchange reserves, China should exploited all available channels to rebalance its international balance payments. The rebalancing problems facing China can be divided into two categories: flow problem and stock problem. Put aside the problem of safeguard the value of its existing foreign exchange reserves (stock) for the time being, an important fact is that China's foreign exchange reserves are still increasing at an annual rate of some 200 billion US dollar, compared with 400 billion US dollar in the pre-crisis period. Therefore, the more urgent task for the Chinese government is to reduce the increase in foreign exchange reserves. Only after China's foreign exchange reserves stop increasing, can China shift its attention to the existing stock of foreign exchange reserves. To achieve this objective, the most obvious channel is to run a more or less balanced current account or even a current account deficit, which in turn requires the deepening of structural adjustment to eliminate the savings-consumption gap, the reform of exchange rate formation regime to minimize government intervention in the foreign exchange market, and the elimination of export promotion policy which creates price distortion.

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which may or may not make the US government happier, because the reduction of China's twin surpluses automatically translate into less demand for US treasuries from China, which is badly needed by the US government. Because twin surplus has become structural, China will not be able to reduce twin surpluses, especially trade surplus in a short period of time.[2] Therefore, a key problem China has to tackle with head on is to translate China's twin surpluses into assets other than US treasuries. There are many avenues available for this objective.

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16. Second, China should continue to acquire more strategic resources and increase its reserves of strategic materials gradually.

17. Third, China should be more actively engaged in M&A activities in the developed world.

18. Fourth, China can be bolder in portfolio investment. Besides the US treasuries, holdings of other types of assets and assets denominated in currencies other than the US dollar should be increased.

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20. Sixth, China should encourage foreign governments and corporations to issue Reminbi denominated bonds (Panda Bonds). China can also encourage commercial banks to extend Reminbi denominated loans to foreign borrowers. Reminbi Funds thus raised by foreign entities can be used to buy dollars from Chinese entities.

21. Seventh, the People's Bank of China should try to increase its currency swaps with foreign central bank.

22. Eighth, China should increase its aid to poorest developing countries in the world.

23. But what China can do about its stock of foreign exchange reserves, which is mainly in the form of US government securities is a more serious challenge. In the next 4 years, the Obama government is going to sell 3.8 trillion (dollars) bonds. China cannot help but to wonder if there is enough demand for these bonds. In fact, this 3.8 trillion dollar bonds are based on very optimistic assumptions on the US recovery. The true figure can turn out to be much big. On the other hand, with economic recession, whether US households will have the ability to

digest the huge bond issuance is questionable. Currently Federal Reserve is implementing very expansive monetary policy, and the excessive reserve has increased from 3 billion to something like 800 billion. The quality of the asset side of the balance sheet of the Fed is like junk bond funds. At this moment of crisis, perhaps the policy is OK. But when the US economy turns around, risk appetite increases, and people stop hoarding money, inflation can be very serious in the US. China knows neither what the balance of demand for and supply of the US government securities, nor what the Fed's exit strategy will be. The US government tries to assure China that their foreign exchange reserve is safe and US dollar will remain strong. But the US government and the Fed fail to provide China with any details of how US policy responses to the global financial crisis will not lead to serious capital losses to China's foreign exchange reserves. Nobody knows whether US government, when being desperate, can reject the temptation to inflate away its debt burden. Devil is in the details. Empty words of good will not soothe China's nerve. China is worried and this worry is legitimate. The US government must address China's concern in an earnest manner.

24. What can China do about its foreign exchange reserve stock? The basic principle should be diversification. This action should have been taken long time ago. Remember, since 2004, Japan stop further accumulation of foreign exchange reserves by stop intervention in the foreign exchange market. In contrast, in the roughly the same period of time, China more than doubled its foreign exchange reserves, and surpassed Japan to become the unenviable largest holders of US government securities. Even in the second half of 2008, when the prices of US securities were rising, China failed to utilize the opportunity to diversify. If China diversified at the time, it could have succeeded in diversification without drag down the prices of US government securities. Instead China increased its holding of US treasuries. However, despite the missed opportunities, China still can do something about the stock of its holdings of foreign exchange reserves.

25. First, China can buy more TIPS and the US government should also take initiatives to provide more TIPS like financial instruments and allow China to convert some of its holdings of US government securities into similar but safer assets.

26. Second, China should be allowed to convert part of its foreign exchange reserves into SDR denominated assets. For example, the possibility of reintroducing substitution account should be considered.

27. Third, China should not rule out the possibility of selling its holdings of US securities to make the composition of its foreign exchange reserves mimics that of SDR. The US government must realize that this is China's legitimate right. In order to avoid bigger losses, China may have to bear some losses due to the sale of the securities. Of course, China should to do so with utmost care and with close cooperation with US authorities.

28. Fourth, if the US government cannot safeguard the value of China's holding of US government securities, the US government should compensate China in one way or anther. The US should not use the pretext that nothing can be done to interfere market mechanism.

The US government was not hesitant when it decided to protect the money market fund market when the funds were facing the danger of "breaking the buck". Some economists have proposed so-called "grand bargain". This is a proposal worth exploitation between the two governments.

29. The call for the reform of the current international monetary system will be intensified as a result the current global financial crisis. The report of the UN commission of experts on the reform of the international monetary and financial system led by Professor Stiglitz, the current international monetary system has three inherent problems: the deflationary tendency, instability and inequality. Developing countries are forced to hold large amount of foreign exchange reserves for self-protection.[5] There is no denying that China has fallen into a dollar trap and indeed this is mostly its own making. However, there should be no denying either that the current international monetary system should also share its blames. The fundamental flaw of the system is that the US dollar-a national currency at the same time serves as the dominant international reserve currency. Because America's obligations are denominated in US dollar, there are no disciplines being imposed on the US monetary authorities. On the other hand, for most countries, China in particular, their claims are denominated in the US dollar and hence there is no way for their to ensure that the value of their assets will not be eroded by US policy. Though a dollar crisis failed to happen in the way as had feared by many economists before the global financial crisis, the fundamental problem remains. To prevent the recurrence of the global financial crisis, and preempt a dollar crisis from happening, the reform of the international monetary system is necessary and the key issue is how to create an international reserve currency which is not a national currency and will not subject to the externality of a national monetary and fiscal policy.

30. The key to the reform of the international monetary system is the creation of an international reserve currency which is not a national currency and will not subject to the externality of a national monetary and fiscal policy.

31. According to the UN commission report on the reform of international monetary and financial system, the current international monetary system is flawed with three major problems: deflationary tendency, instability and inequality.[6] China's view of the current international monetary system is not identical to those to the UN commission but the two share many common opinions.

32. Ahead of the G20 Summit in April, Zhou Xiaochuan, Governor of the People's Bank of China, released an essay titled "Reform of the International Monetary

[5] Many rationales have been put forward for this growth pattern. Among them are mercantilism, BW2 (Dooley, Folkert-Landau and Garber, 2003) Forterlander and Garber, self-protection (Stiglits, 2006) and parking theory (Corden, 2007). All the above-mentioned explanations have elements of truth but none of them are a comprehensive picture of what have been going on in China over the past two decades.

[6] The UN commission on the reform of the international monetary system and financial system, to be published.

System." According to Zhou, the dollar's unique status as the world's primary reserve currency has resulted in increasingly frequent financial crises ever since the collapse of the Bretton Woods system in 1971. "The price is becoming increasingly higher, not only for the users, but also for the issuers of the reserve currencies," Zhou said. "Although crisis may not necessarily be an intended result of the issuing authorities, it is an inevitable outcome of the institutional flaws." Zhou called for the "re-establishment of a new and widely accepted reserve currency with a stable valuation" to replace the U.S. dollar - a credit-based national currency. The central bank governor noted that the International Monetary Fund's SDR should be given special consideration.

33. "The current crisis provides, in turn, an ideal opportunity to overcome the political resistance to a new global monetary system. It has brought home problems posed by global imbalances, international instability, and the current insufficiency of global aggregate demand. A global reserve system is a critical step in addressing these problems, in ensuring that as the global economy recovers, it moves onto a path of strong growth without setting the stage for another crisis in the future."[7]

34. In the post Bretton wood system, the reserve currency, the US dollar is accessible from capital markets. In this sense, Triffin dilemma is no longer exist. However, the fact that accumulation of dollar assets, meaning the accumulation of American debts, will lead to the weakening of the confidence in the dollar remains. Although the provision of liquidity is no conditional on America's running current account deficits, but America's current account deficit has been accumulating steadily anyway. How much trust the world can place on the Americans willingness to tighten their belts, nobody knows. In the sense that the rise in foreign debt/GDP ratio will weaken investors' confidence in the dollar and eventually will lead to a dollar crisis, Triffin dilemma remains. Furthermore, the post Bretton wood system has been associated with volatility of the dollar exchange rate. The variable exchange rates have created tremendous negative impact on the growth of developing countries.

35. The UN commission report shares many common grounds with the proposal by Governor Zhou xiaochuan of the PBoC on the creation of a "super-sovereign reserve currency". On 27 June 2009, in its 2009 financial-stability report, the PBOC reiterated its call for the creation of a new international reserve currency based on Special Drawing Rights. There is no denying that to expand the role of SDR and to create a super nation reserve currency is in the interest of China. The new reserve currency will provide China with a safer store of value than the US dollar. However, Diversifying dollar asset risk away from China means that some

[7] Draft of the Report of the UN commission of experts on the reform of the international monetary and financial system, Chapter 5, p89, June 2009

other nation will share more of the risk. Can a mutual beneficial agreement be reached among nations? Theoretically, the answer should be yes, because a more even distribution of risk means increase in total welfare. In other words, every country can benefit, as long as a good plan can be formulated. Personally, I think that to create a global reserve currency is not a utopia; rather it is feasible and workable. The obstacles come from political rather than economic and financial sphere.

36. As pointed out in the UN commission report, there is clearly an urgent need to reform the international monetary and financial system to ensure that it is more inclusive and equitable, and to thus enable more effective and credible global economic governance. Already, some developed countries, such as the United Kingdom and France, and many developing countries, such as those in the Commonwealth, have called for an international conference to redesign the system of international economic governance into a new post-Bretton Woods system, designed to restore accountability and transparency in international economic policy-making and to overcome existing systemic weaknesses.

37. To strengthen the IFIs, the resources of the IFIs should be increased. For IMF, there are two major channels of increasing financial resources: one is increase the quotas and another is more borrowing. The current quota formulation cannot reflect the shift of the balance of power between developed and developing countries. In line with the distribution of quotas, in the current IMF voting framework, the European Union (EU) has 32 percent and the United States has 17 percent, compared with China's 3.7 percent and India's 1.9 percent. Major decision-making at the agency requires at least 85 percent of the overall votes and therefore the United States has a de-facto veto. This arrangement is totally unacceptable.The April 2008 decision by the Board of Governors to adopt a new quota formula is not sufficient to address the problems in governance. To improve governance as well as increase financial resources, the IMF needs to reform quota formula. The most essential as well as simplest step of the reform that IMF should take is to increasing quotas of developing countries to reflect the changed reality. This, I guess, is China’s most important and immediate demand. With regard to the increase in financial resources, China will be more than happy to make more contribution to the IMF, and the preferable form of the contribution is to buy SDR denominated IMF bonds. China has already officially expressed its desire to invest in bonds denominated in SDR to increase the resources of the International Monetary Fund (IMF)

38. To make IMF decision making power more inclusive and equitable. There are at least five things should be done. First, on top of the April 2008 decision taken by the IMF Board of Governors, the basic votes should be further increased, so as to increase the share of basic votes in the total votes. Second, the quota formula should be reformed to reflect better the economic reality. Third, double-majority

voting should be applied to a broader set of decisions to compensate for voting imbalances in the Fund. As argued in the UN commission report, double majority voting (shares and chairs) should be extended to the selection of the Managing Director and the chair of the IMFC, as well as for key policy decisions and to approve access to lending operations. Fourth, consideration should be given to eliminate effective veto powers over decisions to amend the Articles of Agreement. Fifth, selection of Fund and Bank senior management should be based on merit and ensure broad representation of all member countries and further steps are needed to ensure a fully transparent process for selecting the IMF Managing Director. In its October 2005 statement, the G-20 expressed the view and this was also the position taken by the Board of Governors of the Fund at the Annual Meetings in Singapore in 2006 and in Washington in 2008. However, progress so far is still moderate.

39. To strengthen the IFIs, the resources of the IFIs should be increased. For IMF, there are two major channels of increasing financial resources: one is increase the quotas and another is more borrowing. With regard to the increase in financial resources, besides increasing quotas, China will be more than happy to make more contribution to the IMF, and the preferable form of the contribution is to buy SDR denominated IMF bonds. China has already officially expressed its desire to invest in bonds denominated in SDR to increase the resources of the International Monetary Fund (IMF). The G20 meeting on 2 April in London announced a US$1.1 trillion package to help member countries to overcome the difficulties brought by the global crisis. The sources of the funds consist of two parties: a $500 billion in new resources and $250 billion in issuances of SDR. On 10 July, the Executive Board of the International Monetary Fund (IMF) has backed the allocation of SDR equivalent to US$250 billion, as was requested in the US$1.1 trillion package agreed at the G-20 London Summit. According to reports, the SDRs allocated will count toward members' reserve assets, acting as a low cost liquidity buffer for low-income countries and emerging markets and reducing the need for excessive self-insurance. Some members may choose to sell part or all of their allocation to other members in exchange for hard currency--for example, to meet balance of payments needs--while other members may choose to buy more SDRs as a means of reallocating their reserves. This increase in allocation of SDR is a very positive step forward towards the reform and strengthening of roles of IFIs. To the London package, China's contribution is some US$ 50 billion. China could have contributed more. However, to obtain the support of the public in China, I shall emphasize, more fundamental reforms of the IMF, such as increase China's quota are indispensable. The IMF has been working on the recent U.S. proposal to substantially expand the New Arrangements to Borrow (NAB), its primary multilateral borrowing arrangement that currently includes 26 countries. IMF wishes to expand its financial resources by 500 billion dollars, effectively tripling its lending capacity to distressed countries and consolidating its status as the lender of last resort for much of the

world. For China, the participation into NAB is a matter of negotiable.

40. To strengthen the governance of the IFIs, relationship between IMF, WB and other IFIs and the UN should be considered seriously. "Neither the Group of 7 of industrialized countries nor the Group of 20 represents a sufficiently inclusive global steering group for addressing global systemic challenges. The G-7 have initiated a number of initiatives important for developing countries, and are engaged in a systematic dialogue particularly with African countries. While the G-20 is more broadly based, there is still no representation of the remaining 172 countries. The shape of any future governance format must ensure inclusiveness and adequate representation of developing countries, including LDCs, promote complementarily and coherence and should establish links between existing and new fora. It is therefore important to strengthen international institutions, especially the United Nations, the body which is most universal, legitimate and accountable to the people of the world. This inclusive response will require the participation and the involvement of the entire international community. Apart from the G-7, G-8 or G-20, it must encompass representatives of the entire G-192." To strengthen the global governance, coordination of all UN affiliated organizations is extremely important. "In the longer-term a Global Economic Coordination Council should be established at a level equivalent with the General Assembly and the Security Council. Its mandate would be to assess developments and provide leadership in economic issues while taking into account social and ecological factors." "As an immediate step, an Intergovernmental Panel tasked with the assessment and monitoring of systemic risks in the global economy should be established. The Panel could serve as an internationally recognized source of scientific expertise in support of better coherence and effectiveness in the global governance system, fostering dialogue between policy makers, the academic world and international organizations." "The Panel should be made up of renowned experts from all continents, OECD countries, emerging and developing countries." (UN commission report, July, 2009).

41. UN commission suggested that "there should be consideration of a new Global Financial Authority to co-ordinate financial regulation in general and establish global rules in certain areas, such as with regards to money laundering and tax secrecy. The current proposals to re-establish the Financial Stability Forum with a wider membership as the Financial Stability Board (FSB) is a step with potential. Strengthening and reforming the FSF into the FSB as agreed at the 2 April 2009 G-20 Summit should only be an initial step toward establishing much more representative, appropriate and effective financial regulation at both national and international levels. The task of ensuring coherence in regulatory principles among national authorities must be undertaken by such authorities supported by an accountable. Secretariat which should have access to a diversity of viewpoints. The FSB and all standard setting institutions must become more representative and accountable to adequately reflect the views of and the

conditions in developing countries. Most developing countries are not represented in today's standard setting institutions. The Basle Committee of the Bank for International Settlements (BIS) and the FSF/FSB set important global economic standards in areas such as data dissemination, bank supervision, financial regulation and corporate governance. The inadequate representation of developing countries in these *ad hoc* bodies, however, makes their analysis and recommendations incomplete and biased in crucial aspects, as recently demonstrated by the Basel II capital adequacy criteria."

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