INTERNATIONAL MONETARY FUND
WORLD BANK GROUP

2018 ANNUAL MEETINGS

CIVIL SOCIETY POLICY FORUM

EMEs AND VOLATILE CAPITAL FLOWS: POLICY CHALLENGES AND SOLUTIONS

Bandung,
Bali, Indonesia

Thursday, October 11, 2018

9:00 a.m.

LIST OF PARTICIPANTS

MARILOU UY
Moderator

KAVALJIT SINGH
Director, Madhyam

MYRIAM VANDER STICHELE
Senior Researcher
Centre for Research on Multinational Corporations (SOMO)

DANIELA GABOR
Professor, University of West England, Bristol

MARTIN KAUFMAN
Assistant Director, International Monetary Fund

* * * * *

EMEs and Volatile Capital Flows: Policy Challenges and Solutions

(9:00 a.m.)

MARILOU UY: Good morning.

(Foreign Language)

So we have an hour and 30 minutes and we hope to have some time for interactive -- for some questions and answers as well. So we hope that the panelists will stick within their time and -- to allow questions from you and some interaction with the panelists.

So let me give a few brief introduction and then I will introduce the panelists. Again, a key observation, capital flows respond strongly to global financial conditions and sentiments, and that's borne out of IMF research and a number of books from fairly eminent authors. So when global investors become more risk averse, conditions tighten and when the market is bullish on emerging markets and developing countries, conditions loosen up and such procyclicality could be a problem for policymakers. Now why is the problem so big? Is that the frequency and magnitude of surges and reversals are greater -- much greater than historical trends. So policymakers are subjected to recurrent bouts of instability which they have to manage.

Now countries do come up with measures and many fairly successfully, since you don't see a lot of financial crises in the past decade. But the question is, is there another way for the International Monetary System to be much more cognizant of the -- of the spillover effects of policies in systemic countries. It's a big question especially since the policies that we're talking about are domestic policies in the originating country. So what would be a good institutional setup, so that some coordination could happen or is it even possible that such a formal coordination can happen.

The second is that developing countries have built up buffers as instruments to manage risks from capital volatility and the amount of reserves held in developing countries have increased a lot in the past decade, decade and a half, and they're costly venture. But they're costly in terms of foregone financing -- foregone development financing. So what might be the options?

Of course, policy coordination, if it's possible, will help. But the other is, you build -- you could have stronger global financial system that is predictable, accessible. There are regional financial arrangements, but as you know, many countries do not have access to large regional financial arrangements, so the IMF is the heart of it. This is actually the largest -- the institution with the largest membership, and so that covers small developing countries who may otherwise not have access to anything else. Now here that we do have a guest who might be able to speak to that.

Now countries have resorted to a policy -- to quite a number -- package of policy measures, and the most popular, of course, is foreign exchange management, and flexibility in exchange rates and buffers. But there might be a few others that -- here we have to use the term macroprudential measures. We have used the term capital flow measures. Is there really -- are they really so separate? From the policymaker's perspective, they put a package of measures that are effective in their own settings.

So these countries have asked questions about what might be the -- what might be a good set of measures and how can they make sure that at least in surveillance of the IMF, for example, that these will be very well accepted and they would have the latitude to implement the measures that are effective in their own setting.

And then, of course, lastly is that there are structural effects of capital flow, openness -- capital openness which is the distributional consequences. And you've heard about it. Some researchers say, well, they're associated with more and equal distribution of income. And that is, of course, a question that policymakers ask as to what one can do to mitigate these distributional consequences?

So let me now turn to our panel. I'm so sorry about this. I'll turn it off. One realizes it, when it rings. So let me turn -- first give the floor to Mr. Kavaljit Singh, who of course is not unknown to you. He is the Director of Madhyam, a Policy Research Institute that's based in New Delhi. I will introduce the panelists as we move along. Okay? Thank you.

MR. SINGH: Good morning, everyone. Salaam-Alaikum. Thank you, Chair (phonetic). Thank you all panelists and participants for joining us in this session. Let me begin by saying that the rapid currency depreciations and reversals in capital flows that are currently taking place in many emerging markets, including Indonesia, that have more to do with the global factors, rather than the domestic or regional factors and these global factors are quite well-known to us like the normalization of monetary policy in the advanced countries, rising interest rates in the U.S., rising U.S. dollar, going trade tensions and hiking crude oil prices.

We saw somewhat similar developments in many emerging markets during the taper tantrum in 2013. And if we look things in a much more historical way, we will find that since the 1990s, we are seeing that the sudden stops, episodes are rising. They have become much more frequent nowadays and they have become much more disruptive. This is despite the fact that many countries -- many emerging markets have built large foreign exchange reserves in the last two decades and this trend is much more visible in Asia than other parts of the world. And this is despite the fact that nowadays many emerging markets follow flexible exchange rate regimes unlike in the 1990s and many have developed stronger macroeconomic frameworks. And nowadays, new financing facilities are also available to emerging markets such as bilateral currency swaps and arrangements like Chiang Mai Initiative or the BRICS CRA which was not the case in the early 1990s.

Now despite all these significant positive developments which have taken place, emerging markets still have not been able to manage capital flow volatility. Now there is no denying that the emerging markets should keep their houses in order. But there are instances and many instances where emerging market with strong fundamentals as well. They have also experienced sudden stops due to the global factor over which they have little or no control. And over the years, we are also seeing a parallel process and that is the role of IMF, as a crisis Manager, is weakening, and we are currently seeing that in the case of Argentina.

So by and large, if we look at the historical experience of emerging market, we find that there are no easy solutions for them to manage the capital flow volatility. Now some people would argue that the best way would be to develop some sort of global rules to regulate capital flows. On trade, we have global rules, but when it comes to capital flows, we don't have any global goods.

But in the current political environment, I doubt whether we can have global rules on capital flows. So what it essentially means is that each country should use all the policy tools that are available at its disposal -- and in this regard, I want to highlight more on the issue of capital flows which are now known by different names.

There is enough evidence across the world to show that capital controls can be useful in altering the composition of capital inflows. We have seen in the case of Chile and many other countries. Capital controls can also help countries to pursue independent monetary policy and governments can also raise revenues through taxes and penalties which are part of capital controls.

I think it was the Asian financial crisis which revived really the interest in capital controls in the policy circles. Because before the Asian financial crisis of 1997, capital controls were by and large where a taboo subject. The dominant view at that time was that the capital controls are bad, inefficient, ineffective and they should be removed.

If you remember at that time, the capital account liberalization was the policy mantra. And just before the Asian crisis, the interim committee of the IMF wanted to amend the Articles of Agreement to promote capital account liberalization. But the Asian crisis changed a few things. In the aftermath of the Asian crisis, we have seen that Malaysia became the poster child of capital controls, but that was still an exceptional development.

Even at that time, by and large capital controls were not seen in a much more positive light than nowadays. And I think that 2018 global financial crisis was a major turning point. It challenged the intellectual orthodoxy on capital controls. Post crises, we have seen that the policy pendulum is shifting towards capital controls and towards greater regulation of financial markets. And during the crisis, we have seen not just emerging markets, many advanced countries also used capital controls, along with macro prudential measures to restore financial stability.

In 2011, the G20 issued a statement recognizing the importance of capital controls along with other policy measures. In 2012, the IMF also came out with a new institutional view on capital controls. I welcome this new position taken by the IMF in 2012 because it's a departure from the earlier position on capital controls. But I must also say at the same time that the new view does not go too far. And let me raise a few concerns related to new view.

Firstly, the new view says that the capital controls could be used as second-best instruments when all other policy options have been tried. In some situation, yes, capital controls can be second best solutions. But there may be some situations where capital controls should be the first choice. Why the IMF has ruled out this -- such situations? I really don't know.

Secondly it says that the capital controls could be used on a temporary basis. My question is why temporary? If the situation demands that capital controls should be imposed for a longer period or for permanent basis, let it be. Let the member country decide the duration. In the case of Iceland, we have seen that capital controls were initially introduced on a temporary basis, but they lasted nine years and there may be situations where you need controls on temporary basis as well as permanent basis.

Look at China and India, the two recent success stories. They deployed capital controls on temporary basis, as well as permanent basis. A big advantage of having permanent controls is that you have the bureaucratic apparatus in place to enforce capital controls. Because we all know that the enforcement of capital controls required a sizable bureaucracy. And if countries don't have that kind of -- that administrative machinery in place, they may hesitate to impose capital controls even on temporary basis when they need to impose it. So I think this is not a very convincing argument.

Thirdly, the new view says that I could see that there is a preference for price based controls. I have absolutely no objection to countries using price based controls. But, again, there may be situations were quantitative based controls maybe much more appropriate, much more effective as we have seen in the case of Malaysia in 1998 and Iceland in 2008.

Fourthly, there is a preference for controls on inflows. Yes, we need controls on inflows. They are very important, but I think controls on outflows are equally important in crisis situation as we have seen in the case of Iceland and Cyprus. In India, we have also seen that the controls on outflows can have an added advantage, in the sense that they can also help in curbing destabilizing hot money inflows. So there is another advantage -- indirect advantage of having controls on outflows.

And as far as the poor countries and the LDCs are concerned, I think for them, controls on outflows are more important because they don't have large foreign exchange reserves to deal with sudden outflows in capital flows.

I'll conclude by raising four policy issues and would likely share some policy suggestions with you. First, I think if the emerging markets are very keen to use capital controls on a regular basis then they should reform their bilateral investment treaties and FTA regime. Today there are something like 3,000 bilateral investment treaties and majority of these treaties, not all, but the majority of these treaties have ISDS mechanism under which an investor can directly sue the host government through arbitration process and thereby bypassing the domestic legal system.

And not all, but many BITs do prohibit the use of capital controls. Only some treaties allow the use of capital controls under special circumstances and for short duration and we all know that the BITs and FTAs are a legally binding instrument. These are not voluntary mechanisms, which means that they can potentially restrict the policy space which is required for the use of capital controls. And if need be, I think emerging markets should not hesitate to terminate bilateral investment treaties. Look at India, China, South Africa and many other emerging markets, recently they have unilaterally terminated many of their BITs, because they found that these BITs are lopsided and they could potentially restrict their policy space.

My second point is that, all the burden on managing capital flows should not be only on the recipient countries. I think the source countries should also play a role. Ideally, there should be policy coordination at both ends, at the source country level, also at the recipient country's level. But at present, we all know that the prospects of having such an international policy coordination are bleak. But I think regional cooperation is possible and particularly in the case of Asia and I think it should be further explored by the policymaker.

My third point is that the emerging markets should rethink about the benefits of capital account liberalization because there is no positive correlation between capital account liberalization and higher economic growth which has been the selling point for the countries you know who wanted to implement capital account liberalization.

Now some people argue that the sequencing of capital account liberalization is very important. Yes, it's very important. In theory, the sequencing of capital account liberalization looks very nice. But friends we live in a real world. We have finance industry has tremendous power and influence our decision making -- domestic decision-making processes. As a result, there are instances where the proper sequencing of capital account liberalization is not followed and this we have seen in the case of Korea. This we have seen in the case of Thailand and many other Asian countries.

And finally, I must say that despite capital controls having many positive features, they should not be considered as some sort of a panacea and they are not a panacea. But if capital controls are used in conjunction with macroprudential measures and countercyclical policy measures, I think they can be beneficial during crises as well as in good times.

So, to conclude, I would say that the capital controls should be part of policy tool box for financial regulation. I'll stop here. Thank you.

(Applause)

MS. UY: Thank you very much Kavaljit. I was remiss you not mentioning that outside are some policy briefs -- very helpful examples that Kavaljit mentioned on capital measures are outlined in one of the policy briefs, so just so you know.

Now the -- our next speaker and since I mentioned the IMF and Kavaljit mention the IMF, I guess it's fitting to turn to the IMF. So we have Martin Kaufman who is the Assistant Director of the Strategy Policy and Review Department in the International Monetary Fund, so Martin.

MR. KAUFMAN: Thank you very much. Thank you very much. I am really glad to be here, and I really hope we have an interesting and fruitful discussion. So I have a presentation so that's going to touched on many of the points that you just mentioned. So, I think that's great. And you'll see that there is much more agreement that people tend to think.

So as I said, I'm really glad to be here. I'm really glad to engage on these very important topics. The right person to be sitting here in fact is Pablo Mora (phonetic) who's the expert on the issue. But for some reason they put me here. But if you have all the tough questions and the good questions, you should -- he's really the person that follows and the expert on the issue. But let me let me say a few things.

I would like to talk about three things today, and I'm going to go through a presentation and we would be happy to share with you the presentation. But three things that I think it's important to discuss. One is that the issue of recognizing that there are -- capital flows can bring benefits to investment, to growth to development, but they are not free of risks. And this is an element that we talk about, and I think it's very important. So recognizing that there are risks is key for putting together a policy toolkit to address those risks and this risk can be very large. So that's an important element to recognize.

The second point is that the international community came together in 2012 and decided -- represented at the fund and decided that something needed to be done in order to understand or have a framework to assess when the use of capital controls or we call it now capital flow management measures, CFMs. But when these capital controls are appropriate, okay? So that that was, I think, an important step recognizing risks and recognizing the needs of the use of other support tools.

Perhaps the third one I would like to talk about today is that it's not enough, we think, just having a framework and say, "Look, this is a good macro framework to understand the circumstances when countries may face risks from capital flows and the use of CFMs -- this capital control maybe appropriate". It's not that -- it's not an output.

So, what the fund started doing is assessing situations where countries, in fact, use CFMs and we started doing that and we started learning from that experience that eventually also will help us refine our framework. And we wanted -- we also thought, well, it would be useful if we do that to put it together in -- kind of in a stock take or in the taxonomy of experiences, using capital flow management measures for everyone. So that's the latest that the fund has done, which is collected all the CFMs, the capital flow management measures that have been used since 2012, and make it available to everyone. So now it's on the web. Everyone can say, "Okay, what about these country? Have they used, have done anything? What type of things? What were the circumstances, why?

So at least it allows us to, first, explore other countries that have used, explore circumstances when they found that useful and then engage in a discussion of whether this was the right policy or not. And the right policy is the policy for the country, is what's the best policy for the country, and that's the other element that I want to bring into this discussion.

So these are three issues I would like to highlight. And let me go through quickly -- in fact, I haven't even started my -- sorry -- so I'll take a little bit less. But -- so I'm not going to -- I'm going to try to say, look, the fund in 2012, as I said, the members which is -- these means 189 countries got together and unanimously agreed that we needed a new framework to assess circumstances where the use of capital controls could be appropriate. And that led to what's called the institutional view. Institutional view means that the full membership of the fund, the 189 countries agree on this framework. Is it perfect? Probably not. Would it have to be revisited? Probably.

A lot of the good questions that you have, I think, are really fair and good questions and things that we have to ponder more deeply. But at least this was the first time -- this was the first time that the institution, the IMF, decided that, yes, we have no mandate of the capital account. The fund has no mandate of the capital account. But still we thought from the perspective of countries applying the right policies for their circumstances that it was good to have the framework. So it came with these institutional view or IV for short.

But -- so what this institutional view does is first, what we were discussing. It recognizes that there are benefits, but also that there are risks. And the challenge is how to really harness the potential benefits from capital flows in terms of investment, in terms of faster development and faster growth. But in a way that in the end does not lead to a crisis or to stress circumstances. When there are certain stops many times associated with global circumstances not with circumstances that the country itself has created. So we thought this is a very important element. It's new in the -- if you want in the global architecture, in the international monetary system, there hadn't been a framework agreed among all members of when the use of capital controls could be adequate.

So I think this is a very important step. Is it enough? No. Maybe we have to still continue thinking and refining. But it's an important discrete step towards recognizing that something needs to be done and we cannot live in a world where capital growth can impose very high risk, because it lead to crisis and crisis are really bad for income distribution from the poor. And these are -- they have real, real consequences, so we cannot just simply say capital controls have benefits. Let's move on. So that's an important point I want to mention.

So this is a little bit of for our internal audience, but I think it's important to discuss this slide and I'm sorry -- I don't know if you can see it from everywhere. But -- so this -- the fact that the institutional all members decided to come together, it's important because it plays several roles. It plays a role in terms of advising countries. It plays a role in terms of strengthening the multilateral collaboration. It plays a role because the institutional view also recognizes that it's not only for the recipient countries to do something, but it recognizes that the source countries have a responsibility.

Have we advanced enough on that? No. Is it a complex issue because requires coordination? Yes. Has there been a discussion? Yes, there they been discussion. But at least it's the first time that it recognizes that it takes two to tango and it needs -- this is an issue that we cannot forget. The fact that source countries and policies of countries needs to be addressed as well.

I cannot -- I'm trying to read from here. I don't know exactly which one is the -- yes, so these try to explain a little bit what this framework, the institutional view is about. It recognizes that we -- and this is a bit of the debate we have. Whether we -- what's the role of other policies to mitigate risks. So whether we should -- we should use capital controls -- at what stage of the policy response -- do we need to use capital controls? And what is -- yes, thank you. Thank you so much. Now I can see what I'm talking about. So at least there is -- what I'm saying and what is there its similar.

So it recognizes that macroeconomic policies have a very fundamental role to play. That the exchange rate should be allowed to move, the monetary and fiscal policy should be you know appropriate and also that financial supervision and regulations are -- and there are strong institutions. Is this enough? No. And that is where we agree.

But the first element of this institutional view is recognizing that capital flow management measures can be useful in certain circumstances, but they shouldn't substitute for what we think are important policies for the countries themselves. So that's the third bullet.

So -- and also that it's really a little bit of a case-by-case of when countries should use them and what are the costs and what are the benefits, and that's something that they should assess them very carefully. And I'll talk a little bit about that in a second.

There was a bit of a discussion about what is the CFM, which is a capital control and capital flow management measure and MPM which is a macroprudential policy measure. And the fact that many times we don't know exactly when a measure it's a capital control or it's a macroprudential policy.

And you know this is -- I think this is a good example of an instance when in 2012 institutional view was kind of established and then we realized that we didn't have enough of an understanding of measures that can be bold. And that it was very important to come back and study these special measures. Measures that not only aim at limiting capital flows, because those can be disruptive, but also aim at limit system financial risk which is kind of the definition of a macroprudential measure.

And the institution came back to produce another paper. We are expert at producing papers. So -- and it basically tried to clarify really the aim and the purpose of the different measures. So that's why I think this is very important, because this points the way. As we go and assess the use of these measures in different countries, we learn. And as we learn, we go and refine that macroeconomic framework that we set up it's not we -- the 189 countries unanimously agreed as a good macro framework, so there was a refinement. In 2017 there was a refinement of that framework. I think that's very important. That is learning from experience and it is reflected on new policies.

So that's -- and on the specific, I don't want to get into the details. We love the details and Pablo is an expert on the details. But this was an important innovation and we are really happy to discuss and engage on these. But let me just for the purpose of giving you the kind of the big picture move on. And say that establishing this macroeconomic framework that it can be useful for managing risk was important in itself.

But applying it in the day-to-day business of the fund, when a country team or a team assessing in -- at the fund assessing the conditions of each country does its analysis. We thought it was very good to make sure that this was done in a systematic way. And also we thought it was very useful to learn from our experience, and make sure that the application was not just even handed that we're applying it to emerging markets, low income countries, but advanced economies as well. And I will come back to that point, because if there is one thing we've done is applied evenhandedly and we discovered that there is a lot of use of capital controls by advanced economies.

So this is something that kind of was not on the radar screen of many people. Even some advanced economies didn't like it when we say, "By the way you are using a capital controls". They say, "No, it cannot be us", and it was. So this suddenly it's good because it's a framework that it applies to everyone. It's a framework that allows a discussion based on something common -- commonly agreed. And it's a framework that allows us to learn from experience and improve.

So let me talk a little bit about the application of institutional view and I'm probably running out of time. But let me just make a couple of more points. So just -- you may know about these. But the fund every once a year goes to each country and kind of does a health checkup of the situation of a country. And in that context, if there are -- they assess all the issues and risks that the country -- or the challenges that the country is facing, and then proposes some policies to address those challenges and those risks.

In that context of the policies that are recommended, it should be a very holistic view of the problem and the policy package that its recommending should also be very holistic. In that context, we look at when CFMs are recommended or -- usually the fund doesn't recommend CFMs, because it's a bit of -- maybe we still have some stigma associated with it. That the fund going on recommending CFMs. But when countries use it, is when they said look this make sense.

So that's basically what the application is in practice. And the application is not capricious. I mean, it's really -- there are -- it's clear how -- and the methodology we used to assess these CFMs. And I have to say that that work that is being done by a team and a team of experts, it's work that requires an enormous amount of time. So the taxonomy I was mentioning that we just published, that covers all the countries that have used CFMs since 2012, takes hours and days to assess these policies. Because many of these policies are things that initially people may not think that they are CFMs or MPMs, capital flow management measures or macroprudential measures. So that's one element of the assessment.

And second, whether they are appropriate or not? So there is a lot that goes into this and I'm not going to go into the specifics of the taxonomy. But let me just say a few things. So what I'm saying is there is a taxonomy and there are the details of the taxonomy and you'll see the reference or the place where you can look it up on the web at the end. But the thing I wanted to finish with is what we learnt from the experience. And we learnt several things. But I also wanted to show you what this taxonomy of the use of CFMs across all the economies shows.

So the first is that there is a good 30% of CFMs that we have identified and applied by the advanced economies. So this is not only an emerging, a low-income country issue. And this is Canada, it's New Zealand, it's Singapore, it's Australia. So it's -- there is a bunch of -- and of course IFM -- and reached during crisis, so some of this -- this is also important.

Now also there you see at what point both emerging and developing countries were using more measures versus advanced economies. But that's one picture I want to instill on everyone, that this is not a framework for just a group of countries. It's a framework for assessing and I can tell you that many countries didn't like when we say, "By the way you are using capital controls". And tell, "Well, we don't see it like that". But then they realize that it's true and that it's very important because it recognizes that there are risks that are legitimate not just for emerging markets, also for advanced economies.

And there are many times that we said that this CFMs even in advanced economies where appropriate. And yet there are also some instances for advanced economies when we say they are not appropriate. And they are not appropriate not because they are -- per se -- they are not an appropriate because really the best policy to address the problem they had at hand was a different policy and they used instead you know a capital control because it was perhaps politically more convenient to use it.

But we said, we say to an advanced economy, maybe this is not the best policy for you. So, I think this is very important. It shows that it -- the issue of risk from capital flows accrues or it's you know it's an important risk for everyone and that this is a framework that it's really also for the benefit of everyone.

Let me show a few other things because, I don't want to monopolize the discussion. But just to say a few other -- talk a little bit about some key features. So the limits on capital flows you have since 2012, mostly capital flow measures, CFMs, are used mostly on outflows and there are some on inflows about -- a bit nearly 30% of the measures that we have identified are on inflows and there are other measures that cover both.

So the other important element is that, half and half some of residency-based, meaning that these are measures that target specifically foreigners versus measures that target everyone that can bring money in or take money out. So this is another important feature.

So this just tells you how many of these measures since 2012 are what type of CFMs that there are some outright limits, we talk about price based and some non-price based measures and you see here what has been used and that is about IAT. And certainly in general what we tend to see is that for inflow controls they tend to be more price based. For outflow, situations where you have the crisis, many times are quantitative potential and some things that make sense. So we wouldn't disagree with that. Okay. So that was also an important element.

I think I am out of time, but let me just -- I'm trying to -- so you see we really care about this issue. We take it very seriously. We think it's important. Risks are something that you have to take seriously and that's why we decided to kind of collect the information and put it out there, so everyone has access to it. Every country has used this measure. So some of them are reserve requirements, so they are -- so we will make these available to you. So if you -- don't feel that you have to take a picture and I'm rushing it, but we'll happy to -- so again on a type of measure for outflows, the number of CFMs that -- I mean, what instances they have been used. So we collected some statistics.

So what I'm -- and let me finish that. I'm sorry it took a bit longer. But what I would like to say is that what is the IB. IB is a macroeconomic framework. It's not an obligation. There's no obligations. A country can say simply, "Well, I disagree with the fund and I'm going to do this", and that's fine. It has no obligation. This is nothing, but still it's valuable to have a common framework for assessing with -- when certain policy instruments are useful or not.

We would argue that the application of institutional view is as important as having a framework. So let it put it this way. We think that the rules of the road in general are useful as well as the monitoring of the rules of the road. And both are, in our view, what we call public goods. Having the rules of the road when countries could use it because also it's important not to have bigger renewable policies, okay.

You obviously countries need to take care of their own house, take care of -- to try to minimize risk associated with capital flows, particularly when they come from circumstances that are outside their control. It's through all financial conditions. But it's also good to have -- to make sure that we all are good citizens and no one is kind of overusing things in a way that can be seen as a bigger renewable policy.

And let me just finish there. Very good. So -- and we'll will make it available to everyone. Okay. Very good. Thank you.

(Applause)

MS. UY: Well this reflects the amount of work that has been done last year on the IV and kind of taxonomy of measures. So I'll give the floor now to Ms. Daniela Gabor. She's professor of Economics and Macro-Finance at the University of West England in Bristol. And she works on studies on central banks, money and shadow banking.

MS. GABOR: Yes, good morning. I just want to say, I want to applaud the enthusiasm of the IMF to talk about capital controls. This is not something we're used to, so may be -- taking a bit more time is fine. I want to make three broad points today. The first one is that although it might be tempting if we look at what happens in international trade to conclude that globalization is on the withdrawal, on the retreat, that's not true about financial globalization.

The second point is that financial globalization is advancing, I think, and will advance fast and will raise important questions and pressures for emerging and poor countries because there are several policy initiatives at the global level that are seeking to fundamentally reengineer financial systems in poor and emerging countries to organize them around securities markets that are ready to welcome portfolio inflows.

The third point that I want to make is that we are not -- either country level or a global level ready to deal with this new type of financial system that we are seeking to implement. And to pick up Kavaljit's or to reinforce Kavaljit's point that the IMF's institutional view is not enough and we have to be much more ambitious than that. So very quickly, the first point on what I think is that rapid advancement of financial globalization through three types of policy initiatives that I would like to mention, being promoted by different types of -- different global financial or policy arenas.

The first one is The World Bank's new maximizing Finance for Development Agenda introduced last year in 2017 with the idea that development aid is dead or that there isn't enough official development aid available anymore. And what we should do is, we should try -- we should turn to institutional investors, particularly the ones located in the North, because they are sitting on trillions of U.S. dollars or euros and they are going to help us achieve the sustainable development goals that we have failed to achieve so far. Infrastructure as an asset class is the sort of pilot project in order to try to get institutional investors into poor countries securities markets.

The second initiative that goes beyond -- before the global financial crisis is called the local currency bond market initiative. And the idea is that we know the flows of borrowing in U.S. dollars or the idea -- poor countries borrowing U.S. dollars and we can see that for several countries -- emerging countries today are creating pressures. Because when the U.S. dollar conditions are tightening, you have to face serious challenges to be able to pay back your dollar loans and therefore, we should encourage local currency bond markets. And that's an initiative that's been pushed by the IMF together with G20, the World Bank and several European countries and central banks.

The third global initiative that I want to talk about is the Financial Stability Board -- Financial Stability Board shadow banking agenda. Since 2015, we don't talk about shadow banking that much anymore. We talk about how to transform shadow banking into resilient market-based finance. That is, how do we make sure that shadow banks become ingrained or organized around securities markets?

Well, and I'm going to the second point. What do these initiatives aim for? And I think -- I would argue that they aim for a global -- for a national reorganization of financial systems. And I would like -- I'm not sure how much I'm assuming the audience is fairly familiar with finance, but I'll try to illustrate that with their picture of an iceberg. I want you to imagine the financial system as an iceberg. In a traditional bank-based system -- and this is me drawing icebergs -- I'm sorry, I'm very bad at drawing. I'm an economist.

In a traditional bank based financial system, what we have and what we can see our banks' balance sheets, right? And banks' balance sheets have loans and these loans create deposits. These loans can be issued by state-owned banks, for example, and that helps with a development strategy or a development model, if you have one. These loans create deposits. Deposits are backed by the state under social contract.

What we don't see, but is very important under the water in this bank-based model is the inter-bank money market where banks pay each other in central bank money. I don't have time to go into this, but I'm happy to talk about it in the break. In the new type of financial system that we're aiming for with several policy initiatives I've mentioned earlier, the financial system looks very different. It is much more complex.

What we see on top of the ice -- or outside the water or securities markets in other words, credit is created through bonds or asset-backed securities, mortgage-backed securities, covered bonds or a whole set of capital markets. And what we don't see under the water is a much more complex set of markets where financing and hedging and speculation can take place.

So, for example, in most countries that have large securities markets, we also have wholesale money markets where the securities are financed called the repo markets. And we also have derivative markets where some of these exposures can be hedged or can be magnified.

Now why is this important when we think about the initiatives to push forward or to attract global institutional investors is because, the idea is that global institutional investors like pension funds or insurance companies -- my pension fund in the U.K. will be able to enter securities markets in poor countries and finance their positions in local securities through wholesale money markets or derivative markets. And this is a much more complicated financial ecosystem because it requires local banks to be also market makers in primary and secondary securities markets, in derivatives markets. So the important distinction is here that we have a much more complex set of financial institutions.

Now the idea in, for example, the World Bank's Maximizing Finance for Development agenda is, this is fine, don't worry about this much more complicated iceberg, because what we want is to attract patient global institutional investors. Right? Pension funds, we know traditionally are patient. They have long term liabilities and therefore they have time to wait. But if we look at what's happened in -- the evolving nature of the financial systems or the global financial system is we know, including institutional investors that we tend to think of patient are becoming or are giving parts of their portfolio to hedge funds or to financial institutions that we associate with much more aggressive leverage and short-term trading strategies.

And why does this matter? It matters because -- and to give you an example of it, the idea that this iceberg of securities market-based finance is much more problematic and fragile than the traditional bank based financial system. This is an example from India where financially -- the financial institutions or securities markets actors are organized in the association of securities and financial markets in India have been pushing for transforming the Indian financial system, particularly securities markets, and adopting the architecture of U.S. Securities markets. And they have been pushing for deregulating repo markets and for creating local derivative markets that presumably can bring liquidity into securities markets.

And why does this matter? This matter because we know from the global financial crisis that these type of securities markets financed through derivatives and repos are much more fragile. In other words, the iceberg expands and contract much -- contracts much faster, at a much greater speed and that raises important questions of what do we do in terms of trying to manage if capital flows or portfolio flows into securities markets into derivatives and repo markets, if we are to embrace the World Bank and the IMF and G20 agenda.

And I think that matters and it is very clear. Even the IMF recognizes that matters in the sense that how we can interpret this initiative to create local securities markets and to attract global financial institutions -- global institutional investors is, we can interpret them as it tends to insert poor and emerging countries into the global supply of securities. That is to connect the much closer to the global financial cycle. And this is important. The global financial cycle, even the IMF, recognizes -- comes with a loss of monetary policy or autonomy or a loss of control over domestic financial conditions.

I'm going to go to the third point now, trying to keep within time. There are -- if this is something that is occurring and will occur at a much faster speed over the next years, what do we do then? The presence or the importance of the global financial cycle which reflects very much a U.S. dollar financing conditions means that there are, I think, two opposing views of how do you address or how do you manage the spillovers or the vulnerabilities of the global financial cycle if you're EM or a poor country.

And there are two ways of thinking about this. One is the IMF institutional view that we heard quite a bit about today or Hélène Rey's dilemma. And there is a trick here that I do with my students, this is not on point. There is a mistake. Well, I was reviewing my presentation this morning and after the earthquake last night, I am a bit -- I was awake all night long, so if you spot the mistake, well done. If not, I'll walk you through it.

Anyways, the IMF view is that you have to put your macro house in order and then go for capital controls. This is a stark way of stating it, but I think it's still accurate and I would be pleased to have a conversation whether I'm misinterpreting it or not. So the idea is macro measures first, including monetary policy, tightening fiscal, tightening exchange rate flexibility and then if you have exhausted all your macro space then you go to capital controls.

However, Hélène Rey, a French economist has argued quite successfully, I think -- and this is one of the mistakes comes in, is that regardless of your exchange rate regime, you either go for full capital flows or free capital flows or you lose the monetary policy autonomy. You can't have the two. So the institutional view according to the Rey dilemma -- through the Hélène Rey's dilemma is fundamentally wrong in the sense that monetary policy autonomy, you can't do much with monetary policy autonomy if you have full capital flows. And this is what takes me then to Kavaljit's point is that capital controls have to be a first rather than a last resort option if Hélène Rey's dilemma holds.

And I think this is something that we can see in the recent report of the Eminent Persons Group where it is recognized that much more needs to be done in terms of understanding the drivers of capital flows. And trying to create the framework through which we can think about how capital flows interact with macro financial stability. So that's one important question again. Do we go for the IMF institutional view or do we go for Hélène Rey's dilemma?

And the second important question that I think it's important to raise is, what kind of development model will we have available if we accept a fundamental reorganization of our financial systems in poor and developing countries? What kind of development model is available? Do we go for a policy engineered financial globalization, which is what the different policy initiatives I mentioned at the beginning are doing or do we go for policy engineered green industrialization? Or some form of local development strategy that allows a country to increase its export competitiveness and to increase the sustainability of its growth model.

And in my knowledge -- and I'm happy to be contradicted, there is one single country in the world that has managed to industrialize very quickly through securities markets, through a financial system that is -- that was based on securities markets and that country is the United States before the creation of the U.S. Federal Reserve. No other country has managed to grow fast and to overcome some of the challenges of being a poor country without the bank based financial system.

So my worry and my concern and I would like to put this on the table for discussion is, whether if we decide to reorganize our financial systems around this complex interplay between securities markets, derivatives and repo markets, what we used to call traditionally shadow banking, are we closing down avenues for future development models that have proved successful in the past? My answer would be yes. Thank you.

(Applause)

MS. UY: Thank you, Ms. Gabor. Now our last speaker, she is Myriam Vander Stichele, Senior Researcher at SOMO.

MS. STICHELE: Thank you very much and I will try and pin you down on what is actually also happening not only at the IMF, not only on the bilateral investment agreements, but basically following up from what's Daniela Gabor has been saying, where are we. And basically, I'm from the European Union, so we are one of the source countries, and what is happening there, because I think that's an important issue to look at.

And basically one of the things that we always forget is the liberalization of financial services that has a role, but especially that within the trade agreements there is also freedom of capital flows that have being guaranteed and this is kind of linked, which comes from the use perspective. And therefore, there might be some issues happening in the European Union which might perhaps be also a solution.

I think, as I've been following the legalization of financial services and the Free Trade Agreements quite closely and I think people and still the dynamics of what is happening now is misunderstood and how the entrance of foreign investors, foreign investment managers -- I mean, foreign banks are playing a role in kind of getting to access much easier to the emerging markets, but also the issuing of the bonds are much easier because they can do it.

Don't forget that also the GATS and the Free Trade Agreements when they talk about liberalization of financial services, it means investment by the foreign banks -- by foreign investment managers. So it's not only trade, it's very much investment. It's also -- don't forget that it will make -- these trade agreements make it much easier to go and speculate and reinforce the market movements. And I think to kind of what you've been saying, kind of really strengthening that mechanism, I think it wouldn't have been possible. So, the whole dynamic I think is important to be recognized.

And even I find that one of the researchers already in 2002 saying that that evidence -- economic evidence suggests that more liberal commitments in financial services can be associated with vulnerability in banking crisis. So early in 2002, there were quite some warnings.

I will show how basically -- although the IMF is saying, well, the countries can do what they want. Well the problem is if in the GATS and the WTO, you have liberalized services and also think about liberalization of financial service is included, not all of you -- not all of the developing countries have done so, but certainly the EU and U.S. Basically, there is quite a limit on what you can do to limit your capital movements especially on the current account that needs to be kind of liberalized completely. And of course -- also but still they are saying, you have to be in conformity with the ethical principles of the IMF. But you can also have some exceptions. And the exceptions there, I think is -- are important.

Because the -- well, basically what I'm seeing in the GATS, you see it's completely reflected in the Free Trade Agreements. Yeah? One of the past ones are one of Colombia and South Korea. But you find them back also in the more recent ones. And just think about it, the GATS rules were based before the Asian crisis and before the current crisis. And the current trade agreements, you still find the same articles back, so it's kind of pre-crisis measures that are still being applied without learning the lessons and also without kind of taking into account what you've just been explained.

On the capital account liberalization, it's quite interesting, because you find quite some variation. So it's like -- and I'm not sure it's about what is happening in the country. I think it's very much has been how much the country has been resisting during the negotiations rather than looking at the situation of the country. For instance, in South Korea, one, there should be no restrictions on financial transfers by investors, on loans or even capital participation in a juridical person with no intention of establishing. So basically, if you want to put your money in a trust, you have to allow it.

Then the other article -- Article 12, which also is reflected in all Free Trade Agreements, is that while you are allowed to have some exceptions. But it has to be very serious balance of payments problems and it has to be -- you have to adopt it in very kind of restricted way. And quite some of conditions are applying. It has to be non-discriminatory. It has to be consistent with the IMF articles, which is interesting and avoid unnecessary damage. It has to be temporary, et cetera. So -- and you have to have consultations which then has to be based on the information from the IMF and the World Bank. So that's only when -- then done you can do it, which already means that it's not really a preventive measure. It's only when the threat is there you can do.

In the UFDAs, you also have exception and that is quite interesting. It's -- a lot of variation there of what you can do. For instance, in the EU-South Korea Free Trade Agreement, the exceptional circumstances in which you can do and the serious difficulties are detailed in extremely kind of limited way -- really restricted way. While if you look at the one in Colombia. Colombia can do it for one year and it can unilaterally extend it. But Peru, which is in the same agreement, can do it for one year, but only when you agree and when you coordinate. So it seems to me this is not really adapted to what the country wants, but how much the EU has been pushing and being able to push through. So there is quite some variations there with exceptions.

But then also, within the articles of the GATS and the Free Trade Agreements, it's the same. You have --

also there are quite some limits of what you can do. For instance, you are not allowed -- because it says, membership states are not allowed to maintain or adopt limitations on the total value of the services transactions or assets, for instance, in quota forms. And other limitation that is there is that there should be no limitations -- well, I'm saying the limitations sector. You're not allowed to limit the participation of foreign capital in terms of maximum percentage of foreign shareholding. That's quite something.

But you can make exceptions. Yes, and you can do that in your schedules. I mean, if you're a bit familiar with trade agreements, these are the rules and there are some exceptions you can do and you have to put that -- when you're negotiating in what is called your annexes or your schedules. But that means you really have to be foreseeing that when you commit a particular service and especially financial service, which means you liberalize your banks, you liberalize trade and derivatives, whatever, that you think that these limits might -- these rules might be restrictive on the policy space and that's not always been the case.

So that's -- but what I also want to mention that during these negotiations there is also a pressure on developing countries to get rid of capital controls. Chile was put under pressure by the U.S. and then by EU to get rid off the tax. Thailand, as far as I could see from the GATS demands from the EU, there were -- Thailand had a rule that you should not have money coming from offshore to onshore and EU wanted to get that away. So that during those negotiations things are happening on capital controls as well.

And then you also have even a footnote which is important, because it says when you have -- you liberalize the financial service or another service, you -- that means that you have to allow the cross-border and you have to allow the movement of capital, and especially when you have what is called mode one. Which means if you have trade cross-border, like a bank is giving you an online service in another country and if you have an establishment, if you invest in a service or in financial service, for instance, then you have to commit money to complete. So these are quite some commitments which are legally binding.

But basically what is happening there, the EU is exposing its trade -- its Lisbon Treaty, because the Lisbon Treaty is saying there should be no restrictions on the movement of capital between EU countries and third countries. Except -- and there it is an exception, but it's very, very difficult to do it. In exceptional circumstances, you can -- with third countries only, you can -- and it poses serious difficulties to the economic union and the monetary union, the council. And then it has to talk with the central bank and with European Parliament and it has to be an anonymous decision. It can then kind of restrict it.

So it is basically the EU itself has been restricting it and has been imposing it to other countries. And I think this is a kind of pre-crisis, a pre -- yes, even -- I would say the Asian crisis decision that has to be taken into account. And this is kind of really a problem that -- especially when the EU is applying -- the central bank is applying QE, which means there has been a lot of outflows as well, because there's no restriction on the outflows and this was a bad thing for us.

But also -- in some ways we do research on multinationals and we are looking at also who is deciding that this money goes from QE to developing countries. And that's where the investors are coming in, having the full freedom to decide what they do because there is no condition to them to invest in kind of useful issues et cetera. There was no distinction whether it's for FDI or this kind of hot money and speculative and also there's no coordination between central banks as we have been saying.

And of course, I don't -- as we could see, I think the flows are not always related to macroeconomic policies in place. I think these were the flows from the elections in Brazil. It just shows you that there's so many other things that are important and therefore I think it's important to look to talk about what can be done?

First of all, I think, yes, the EU can change what it has known as a capital regime because Article 64 was saying, it can do it especially -- a special legislative procedures. It basically can change some of its capital regime and that's something that is not being discussed with the European Union at the moment.

What is important, I think, also is that the EU changes its stance when it is negotiating trade and investment agreements. And I think -- I don't -- any of you are involved in the EU negotiations with Indonesia because that's where these things are going to come up as well where these kind of rules will be included, because it's kind of normal. This is a standard one. But it's really to be put into questions.

And for instance, there is now an EU-Vietnam Investment Protection Agreement which then says, yes freedom of capital, but especially related to FDI. I think there is still something that can be said. But at least that it is very, very limited on where the freedom is kind of being imposed. And I think in the free Trade Agreements that already exist I think the EU could negotiate a Memorandum of Understanding saying you have much more flexibility than is possible.

The other thing that is now being discussed at the European Union is that basically the EU should do a better risk assessment. Well first of all, they don't talk about the risk assessment that has to be done when for instance, there's corporate bonds that are being bought by the investors in other country. Whether or not there should be much better risk assessment, whether it is country where they are buying the bonds from is kind of having an over indebtedness problem and so on. I know there are problems with information about indebtedness, but still, I think this is a risk assessment that has not being done.

But basically there is also no -- the whole discussion that the investments by -- that are being decided in the EU, let me put it that way, that it should be more sustainable. Henceforth, there's an old action plan on sustainable finance. And actually in the pension fund of regulation there's already a law and the rule that says we should do an Environmental, Social and Governance risk assessment. And you should take ESG, Environmental, Social and Governance factored into account. And basically, what is trying to do is to say when you're investing, look at the impacts that you will have. And I think the freedom of capital is not really taken into account. But for me that's also a responsible investment.

And there are so no laws being discussed in the European Union. They're not yet there, but the proposal is on the table and being discussed that you should disclose how you do your sustainability risk. And for me that would also include what is the consequence when you invest in something that you will withdraw very quickly and so on. And another one is actually also what is called the carbon benchmarks.

In the sense of making sure that when you are investing, are you following an index that you are able to do an index which has no environmental damage and also a peaceful climate and that's at least for climate. So it's kind of -- it's avoiding brainwashing. But at the same time, I think the idea behind it would be -- and you have to broaden it much more than it just for the moment, because it's based in the capital markets and it's a problem of itself. But it's kind of where do we put the responsibility on the investors to decide on these issues and I think that's an important issue as well.

So, my conclusions are, yes, we really have to think about these rules on capital controls are based in the GATS and in the Free Trade Agreements. The countries of origins of the hot flows are having responsibility. Certainly, also when we're creating capital markets union, I think that's also what the consequences of the iceberg of Daniela. There is an urgent need to move capital to climate and environmental and socially responsible investments. So we really have to stop this speculative as Turner (phonetic) was saying socially useless, speculative money and see how we can really kind of move it to much more useful investments.

And I think we also have to do more research on what I call the identifying the decision making by the investors. I'm especially concerned about the corporate performance from developing point of view incorporated in mutual funds and ETFs. And if people have been doing research by that, I would like to know about it. Because that's where it's now dramatic kind of movements and people think, the value goes down I'll withdraw my money. But that might have quite some consequences in developing countries, so I would be interested to hear what people have to say. I think we can inviting --

(Applause)

MS. UY: Thank you. As you can see this is really quite interesting and excellent panel. So I believe each of the speakers' probably asked more questions than answers. So -- and I think that's a pretty good state to be in the sense that questions are being put on the table. So this is the time to put on the table even more questions. Okay, let me get to the gentleman at the back. This gentleman and that gentleman. Okay, can I do three first and then we'll move on, okay?

UNIDENTIFIED SPEAKER: Thank you. I'm Danny from (inaudible). I this it's very good presentation. Thank you for presenters. My concern about the current account deficit countries, because not easy for them to implement like you say capital control. So I just wondered if maybe you can name it that -- any candidate success -- any country of current account deficit country get successfully implement the capital control? Thank you.

MS. UY: Thank you, gentlemen, over here.

UNIDENTIFIED SPEAKER: Thank you. My name is (inaudible) from Bali, Indonesia. Thank you for a very excellent presentation, very comprehensive. I have two questions actually. First that, if we are using the term of the capital inflow, using the balance of payment perspective where they are -- the capital inflows off the foreign direct investment portfolio investment and other investment. Why currently the capital inflows seemingly in my opinion goes into -- more in the investment portfolio rather than with others capital inflows? What happened in the global economy, global financial market? Because it's very important for Indonesia in backing the strategy to attract the capital inflows into public foreign direct investment, that's my first question.

My second question regarding the issue of the capital controls. So I would like to say that for the country who has already been implementing the capital allocation (phonetic) since the beginning, seemingly it's quite difficult for this country to move to the capital control -- lot of dilemma, a lot of punishment from the market. So do you have any idea -- because even moving to what Mr. Singh (phonetic) said, temporary capital control, can you -- can I have your insight about it? Thank you very much.

MS. UY: Thank you, very good questions. Gentleman on the -- there was somebody here. Okay, good, good, good. So, we'll take two more questions and then back to the panel and then we'll do another round. Yes.

UNIDENTIFIED SPEAKER: Can I have it. Okay.

MS. UY: And there is the lady there.

UNIDENTIFIED SPEAKER: Okay. Thank you. Thank you for the speakers. What a nice presentation. My first question is to Mr. Martin. What is the obvious obstacle versus where the IMF, why the policy has not moved to control the source countries? What is the main obstacle? Instead of what's already explained by Ms. Myriam about the freedom of the -- and with the ONM et cetera. What is the main obstacle for that?

The second one is similar with Mr. Eddy (phonetic), previous questioner, how we can success Mr. Kavaljit move from the free capital control to light control, so that we cannot punish by the market. How we can do it successfully? Thank you.

MS. UY: Okay, the lady at the back and then we'll come back to the panel and then move on.

UNIDENTIFIED SPEAKER: Hi, there. My name Anuj Kaur (phonetic), and I'm here with the Young Diplomats of Canada. And actually a question for Mr. Kaufman. You mentioned that nations such as Canada and Singapore would struggle in this realm as well. And I was just hoping to hear you expand on that and explain what these countries could do to sort of soften the blow?

MS. UY: Thank you. Shall we start. Maybe we'll move from this side Kavaljit and then go on this way.

MR. SINGH: Okay. Example of one country, we first said that which suffers from current account deficit and that it could potentially use capital controls. My country, India. We have a perennial current account deficit. It's not a one-off kind of an event. We suffer from current account deficit for various reasons, I can't go into details, but we can discuss it later. And still we have been managed to regulate -- to manage our capital account through capital controls both on inflows as well as on outflows.

Plus, we also use restrictions on import of goods. For instance, recently our government -- because of this particular situation which we are, which is similar to what Indonesia is also facing because of the hike in oil prices, so the government has come out with new restrictions on import particularly of those goods which are luxury goods and things like that. So there are ways and means to manage this current account deficit along with capital controls and there are other countries as well as which have tried to do similar things.

The second point was that raised by another gentleman that, what can we do with -- because if we liberalize we get speculative money. I think there is this Chilean model in the 1990s and that model has been followed by many other countries including Colombia later on, where they put URR, some sort of a tax kind of a thing, so that the short-term money which is coming into the country through bank borrowings, so that taxed. Brazil recently did that in 2009 because they were facing a lot of inflows. So there are ways and means, you can use capital controls to alter the composition. Which means that you discourage certain kind of inflows which you think are destabilizing and which are not productive and useful -- socially useful and by doing that you also encourage long term capital inflows.

How to change this -- the third one last hope of change it? I think still there is a stigma attached you know which Martin also mentioned about that. Still if you use this -- "What capital controls? People think that you are taking us back to some ancient regime kind of thing". We have that kind of thing. Still there is a stigma attached. And I think through our writing, through all of our talking, through our policy actions we can prove that controls are very legitimate instruments and they should be used during the crises and also in good times when you don't face any crises and that can help you in preventing the crisis. So, I think there is lot need to be done by everyone, academia, civil society, journalist international financial institution together to remove this stigma. I'll stop there.

MR. KAUFMAN: Thank you very much. Let me be brief so that we have more time for questions. On use of capital account or capital controls and effectiveness and without stigma, I would add the case of -- or what I would mention the case of Brazil. This is case I encourage everyone to study. They've been using it for quite a lot of time. They have the system in place. They may increase the rate from 0% to 10% for some inflows and then back to zero, but the system remains in place. So it is there and it's not necessarily penalized by the market. They have a significant market in local currency bonds which is good, because then companies are not subject to exchange risks (inaudible). There are countries that have successfully used it.

Source countries, yes, would be great if they would internalize this. I mean, clearly, in the debate, it's -- that some of the source countries said, "Look, we have to care about our own citizens and countries and it's hard for us to say we're going to do this policy for the benefit of someone else. Politicians have problems saying those things. So -- now having said that, there is a role for information and transparency. If we think that a country is not pursuing the right policy mix, and let's say, using too much policies that tend to have spillovers on another countries, we should say it and you just say loud and clear. And we have been saying that. And we've said that for instance for the U.S. It would be better to have a different policy mix. A mix that during the crises that we could use more fiscal policy rather than monetary policy. And we've said for other countries that they should not abuse monetary policy and they should have the right policy, because if not, it has impact for emerging markets.

So just transparency, I'm saying it, I think helps. There is any question about Canada and Singapore, maybe we can deal with that later. I mean, happy to talk about that, but in the interest of time, because it's not they're going -- we have less time for.

MS. STICHELE: Yes, I think you are probably a bit of a problem with constitution kind of liberalizing it, but still I think the stigma is there. I'm just wondering even if it's not in the algorithms of capital controls or whatever. So I think there we have to get rid of the stigma, but I leave it there.

MS. GABOR: Okay. That was very fast. And just very quickly on the question of capital -- the current account deficit countries and if that is not easy for them to implement capital controls, so we have heard examples of countries who do. I want to mention the example of a country who doesn't, which is Argentina. And Argentina is now at 70% interest rates in domestic currency and a very brutal fiscal adjustment program with the IMF. So, I think, maybe we should learn from the experience of countries that do use it as a normal first recourse tool.

The second is, why is the portfolio investments are growing very fast, right? I'm a Minsky. I follow the teachings of Hyman Minsky, an economist that looked at sources or changes -- what he called evolutionary changes in finance. So, the easy answer is finance is changing very quickly and that's it. But if I take a step back and ask what is behind this evolutionary changes in finance?

I think I would point to the fact that we have two very important sort of political crises in the global north. And these political crises are generating a rapid increase in institutional investment and asset management for which I worry that poor countries in the south will have to pay for.

And these two political crises are, the first one is the crisis of the welfare state. Because we have told we cannot save through the state anymore for my future pension, for my future -- the education of my children, I have to save through financial markets, and therefore my pension fund has to go somewhere and find returns because we can't provide them in the global north.

The second political crisis that we have is that there is a growing inequality and unwillingness of countries in the north to tax properly multinational corporations and very rich high net worth individuals. And these ones again are hunting for returns. They can't find them in the north and they are hoping with the help of the World Bank and other financial -- international financing institutions to find them in the south.

So this is -- my worry is that I will expect now poorer farmers in Indonesia to pay for my very nice pension. I'd rather my state pays for my pension. I'm not suggesting this is a good idea. I'm just pointing out that this is where we're heading. And I would prefer my state to pay it -- the British government, because I work in the U.K., although I'm Romanian. But that has something to do with a political willingness to contemplate that the kind of crises of legitimacy and democracy that we have in the global north. And I'm sorry that you are left to deal with the consequences of that. Well maybe I will stop here. Thank you.

MS. UY: Thank you. That's probably not the headline on that she is looking for. Okay, one more round very quickly. Okay. There are more questions. We have five minutes. Yes, the gentleman at the back.

UNIDENTIFIED SPEAKER: My name is (inaudible) from Indonesia. Thank you for excellent question session. It is interesting for me that you mentioned that there is no correlation between liberalization and stability in financial market. Theoretically, I think as it should be correlation will be -- positive with deeper market with broker -- a player then to absorb the demand or supply. But I just wonder why it's the case that there is no correlation. Is there any disruption on the liberalization itself or what kind of liberalization according to you especially Mr. Singh that create lower volatility in market or make market stable? Thank you.

MS. UY: Thank you. Do you have another -- we can take, I think, a couple more questions. Yes.

UNIDENTIFIED SPEAKER: I guess it's more a comment about the -- between the IMF and the -- and it's a responsibility of developing country governments to sit in the IMF board, right. I mean, the view of 1997 where there was a whole sector of the World Bank and one of whom became the Irish Central Bank Governor when the crisis struck that was making developing countries in Asia liberalize their capital account, right. It was supposed to be culmination of liberalization, so the nearest discussion expose something that developing country should look at. They got the diction (phonetic) between by the IMF on capital controls and this -- the World Bank pushing another thing altogether. The IMF staff in 1997 were so obsessed with getting rid of the Articles of Incorporation restriction because the World Bank was making a lot of hay in Asia -- in East Asia about liberalizing capital accounts. Anyway, it's more -- I mean it's like saying in the comments, that the member states of this IMF and the World Bank should figure out a way to understand this and for some coherence -- I mean this is the word that Washington D.C. likes to use, right?

MS. UY: And it's beyond coherence, it's what's for the best for the World Bank. So one more question and then we turn to the panel or should we now turn to the panel? I think we should now turn. Okay, sure. Thank you. Second round.

UNIDENTIFIED SPEAKER: I'm interested on the issue of the current development of digital economy and digital financial model. What is the impact on the capital flows under digital? Thank you very much.

MS. UY: So, go back again. Okay, one more question and that's the last one. Yes.

UNIDENTIFIED SPEAKER: Thank you. Mine will be a very short one. I was (inaudible). I just wanted to use your expertise -- thank you very much for your presentations -- about another topic. Is there any study, financially speaking, about the link between capital flows and control with human flow and control? I guess, one thing that Daniela didn't mention also was the crisis of migration, which has not only humanitarian consequences, but huge economic and financial ones. So is there any study even in the IMF about this link between capital movement and human movement? Thank you.

MS. UY: Yes. Thank you. It's the question on both capital mobility and labor mobility. So, okay, Kavaljit and then this way and then we finish. Thank you.

MR. SINGH: Very quickly. My view is that the liberalization -- and I'm talking about broadly, the economic liberalization. That should not be pursued in a textbook form -- the national context matters. And we all know that that plays a very big role. So each country should decide what kind of policy mix it wants. And when I'm critical of capital account liberalization, I'm not saying that that should not be pursued at all. But to what extent a country should decide what level of liberalization is required and what level of controls is required. That is very important. And therefore, I think that some sort of a binding international regime which restrict governments to use certain kind of instrument that should not be here. And there is a need for more greater policy space because now it is, as we discussed in this panel, the volatility is increasing with all kind of negative consequences. So there is a need for greater vigilance to deal with this capital flows.

And even if you -- a country which follows, which implements a very sound domestic financial system, if they don't address the problems which are coming from outside, the capital flows, so that domestic regulation, however good it may be, may not be able to address the problems which they are facing.

MR. KAUFMAN: I think it's very unfair -- men to get to speak first. So, I would be very, very brief.

MS. GABOR: You can take longer, I guess.

MR. KAUFMAN: You're right. So that's why I'm going to be very, very brief. On the issue of capital flows and migration, I haven't seen any study. I would just say one thing in general. My impression is that any policy and any risk that it ends up in a crisis and increasing poverty may continue to pressure towards migration. So what we are talking about here is that perhaps impulse or flows coming from abroad and creating conditions when liberalization has proceed too fast and cannot be absorbed and ends up pulling the country in a risk position and you end up with a crisis, would be circumstances that are more prone for having migration and problems associated with migration.

So in a sense, if CFMs area a good tool to prevent crises in a sense are also a good tool to prevent the poverty and maybe locations associated with crises that tend to affect disproportionately poor people. Let me just stop there because if not, I will take too much time.

MS. STICHELE: I think what has been underestimated when one was saying liberalize, for instance, financial services because it will be much more efficient and it will can get your technology and so on. When we studied -- I mean, Kavaljit and I looked at some case studies. What is happening is that the foreign banks they go to the richest clients and they -- and in some countries that closed the rural banks -- rural branches, and this kind of creates a competition with the local banks then who then have to deal with the poorer clients and they might also close.

So the efficiency is not in the way that it's really -- is always beneficial for the economy. So that's kind of -- just to give kind of an idea that the arguments have to be looked at both sides and you really have to have very good -- for instance, it was also in the GATS -- one of the rules was that -- in the annexes there was, you should allow any new financial service. But as we know that these new financial services that have been causing the crisis.

So, that this kind of -- that there are -- there should have been much more regulation in place. I mean, the negotiations go and I think the central bank would kind of advice you to be there with the negotiations with the EU, I think, because of financial services and because of the capital rules there. Because it's -- if you don't have the rules in place to kind of liberalize what the EU wants you and pushes you to do, it's quite dangerous.

And I think secondly, on portfolio investments, it really has to be sort of how much is kind of really beneficial for the country itself and whether or not you are targeting particular kind of investments. Well, I would say speculative ones to kind of really limit and to come in. And I think we need to raise the debate in the European Union as well that there is quite something about capital controls, even within the European Union, because I think Greece and Spain and Italy are experiencing those things.

MS. GABOR: Okay. So very quickly, I think on your question, there are private initiatives to use digital technologies and Blockchain in order to replace -- or an attempt to replace central banks currency swap lines with private solutions. I think they will not go nowhere. But there are attempts to do that to create an alternative.

And on the question of labor, as a Romanian migrant in the U.K., I am very aware of the irony of pushing for capital mobility and restricting labor mobility in the European Union and the European Union and abroad. And in terms of studies, I think there are two examples here in the region of -- not sort of academic studies, but the idea of the relationship between migrants and capital flows is that, I saw both India and the Philippines calling on their migrants to send back money in order to try to stabilize the currency, and I worry that we live in a world where that's the resort that we go to. I think we have much better tools of trying to prevent exchange rate volatility than our legal and illegal migrants.

MS. UY: Well thank you very much, excellent panel and very insightful questions. I might have moderated it not so well in having the men speak first, but let me make up for it in that we get the last word. Thank you.

* * * * *