WS32 – Institutions of the financial sector

Session 1

The Chinese vision

- The modernisation of the Chinese financial system: fusion of different banking and financing activities; possibility for households to buy stocks; access to bond markets for small and medium enterprises (SMEs); etc.
- Reciprocal openness of Chinese and Western economies (possibility to buy firms, to invest in capital markets); the convertibility of the Yuan: when? how?
- The imbalances of the Chinese economy: excess domestic savings; trade surplus; regional and social disparities; no access of SMEs to capital markets
- The risks of a liberalised finance system: bubbles (cf. the recent housing bubble); financial crises (Asia in the 80s, Russia, Argentina); different kind of risks (variation of key variables such as the interest rate and the exchange rate; default from borrowers)
- How to reconcile liberalisation with social justice (the case of housing) and the environment

The European questions addressed to Chinese

- Which speed for the convertibility of the yuan ? Can you wait to be the last ones, after India, to let the value of your currency be determined by the market ?
- What about the bubble on the housing market ? How is it regulated ? Why don¡¯t you implement a system where the land would be shared, while housing would remain private (people would ¡®rent¡¯ the land ?)
- Why can some banks invest in Chine while others cannot ?
- Is China willing to take on the responsibilities that will come with being the first economic world power, such as its currency taking the role played by the £ in the XIXth century and the $ today ?

Session 2

The European vision

- The difficulty of building a common market : necessity to have economies of the same level of development
- The risks of financial liberalisation : necessity to have a large government debt to give deepness to the capital markets (agents can buy and sell government bonds) ; necessity of rating agencies to evaluate the risks and make them known publicly ; derivatives (e.g. options) cannot be introduced before the legislation is changed. Also, financial integration takes time, 15 years at least.
- Contemporary crisis of liabilities because of the « titrisation » of debts, that is the fact that banks pass on their loans on the form of bonds that are sold on financial markets ; as a result, banks make as many loans as possible, and thus have a risky behaviour, which can lead to a crisis, as the crisis of the subprime mortgage loans in the US has shown in late August.
- Practical dimension of having a single currency : save on transaction costs (no need to trade currencies) ; transparency of prices in different countries ; economies of scale for firms which can sell their products to a 500 million inhabitants market ; lowest interest rates on bonds ever recorded ; creates a feeling of unity for citizens
- Different currencies could be used according to the types of goods traded ; necessity goods such as food, water and energy should be produced locally
- The lack of coordination of macroeconomic policies leads to fiscal competitition within the EU, which favors small countries over larger ones (Ireland vs. France and Germany)
- Similarity does not necessarily lead to convergence ; reciprocally, differences do not imply divergence ; what matters is the quality of the governance. An idea Europe can export is its ability to handle diversity within a single institutional framework
- The subprime crisis is not a systemic crisis : it is the normal working of a market, where some gain and some lose

The Chinese questions addressed to Europeans

- Why has the euro risen against the dollar ? Why now ? What are the consequences for European exports ? (case of Airbus, who is not doing so well)
- What are the lessons of the introduction of the Euro for : the different countries ; the different regions ? What is the feedback from citizens ?
- What are the lessons of the subprime crisis ?
- Is the supervision of banks national or does it take place at the European level ?

Session 3

The convergences between the European and Chinese society

- The need to find alternatives to the dollar
- Creating a new international monetary system
- Necessity to modernise the Chinese financial system while avoiding financial crises
- Stimulate information exchange between China and Europe

The divergences between the European and Chinese society

- The role of the Yuan
- The pace of the reforms in China
- Openness of the Western economies to Chinese investments and reciprocally
- Relationship to the US: opposition or complementarity

Session 4

Acting together on common challenge

- A seminar on the reform of the international monetary system
- How to keep/create unity within diversified economic and social systems (regional imbalances both in China and within Europe)
- What role for local/complementary currencies?
- Working on the respective caricatures of each other to achieve better knowledge and foster fruitful exchanges
- How to preserve social cohesion and to fight inequalities within Europe and China despite globalisation and the development of economies led by finance?

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