POST-CRISIS WORLD INSTITUTE

THE FINANCIAL ARCHITECTURE OF THE POST-CRISIS WORLD: EFFICIENCY OF SOLUTIONS

INTERNATIONAL RESEARCH PAPER

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www.postcrisisworld.org

The Post-Crisis World Institute Foundation (www.postcrisisworld.org) is an independent analytical centre established in Moscow in early 2009, at the initiative of several well-known Russian public and professional organizations, including the Public Opinion Foundation (www.fom.ru), Stock Market Development Centre (www.crfr.ru), the non-commercial partnership "Business Solidarity" (www.kapitalisty.ru).

The Institute's activities are aimed at promotion of the dialogue among expert and business communities, civil society and governmental institutions on efficient anti-crisis decision making.

In February-March 2009 the Post-Crisis World Institute conducted the international survey *Post-USSR: Assessing Government Anti-Crisis Actions*. The assessment of the undertaken governmental anti-crises measures across the former Soviet space has been highly evaluated by the international expert community. The report is available at: http://eng.postcrisisworld.org/research.

The report has been widely presented in mass-media and sent over to the governments of former Soviet countries. This research project became in some way a feedback to the governments of the former USSR countries from the business-community. On the basis of the carried out research project the business-community has come up with concrete proposals on the development of national and international anti-crisis initiatives.

The Financial Architecture of the Post-Crisis World: Efficiency of Solutions is the second research project of the Post-Crisis World Institute.

The Institute is open for cooperation with all individuals and organizations that share common goals and values.

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In Search of Fairness

"The accurate and erroneous ideas of economists and political philosophers are much more powerful, than it is accepted to think. In reality the world is subordinated almost exclusively by them".

John Maynard Keynes

In 2009, for the first time since the Second World War, attention was drawn to restructuring of the world finance. In the course of development of the economic crisis since the beginning of the 21st century, governments have come to realize the very foundation of contemporary capitalism remains irreversible to change. Reform of the world financial system is on the agenda and now the subject is not of partial improvements to the former structure, but of the creation of an essentially new post-crisis world financial architecture.

Already in 1848 the Marxism founders proclaimed in the Manifesto of the Communist Party the idea that the capitalist economic system was doomed and that its collapse was assured because of internal contradictions. Since then capitalism has overcome several severe world crises and each time recovered, flourished and became stronger. Karl Marx preached revolution and capitalism answered with self-reformation. The main principle of the capitalist economy, which was underestimated by Karl Marx, is its ability to self-update, innovate and cleanse itself of inefficiency. Internal contradictions are the engine of the global economy and each time a crisis presents itself the post-crisis world is forced to begin and create anew. Today, the world is waiting for these systemic innovations.

However, the new model will not materialize from just nowhere. It is being created today within a global discussion and is continually gaining in strength. The global discussion which is devoted to the reform of the world financial system became a historical phenomenon in 2009. Expert and political work conducted on different platforms is turning to global processes, a kind of a *networked Bretton Woods*.

The first results of this work are obvious.

Demand for Innovation. Expert consensus of 2009 demonstrated that there is an ongoing irreversible process of change, and there will be no turning back to the old model. Building a new financial architecture will be the way out of the world crisis. The *World as Usual* will be impossible. Developing trends in the crisis dictate innovation becoming the principal capital. According to this, the states initiatives become their political and economic resource. In global discussions the economic weight of countries (contribution to the world's GDP) is even less important than the initiative for innovation. The very global discussion becomes a central arena for struggle for such an initiative, this initiative will define everyone's place in the post-crisis world. Thus those, who would like to apply for leadership, must provide the world with new ideas.

Disappointment in the Institutions. One of the lessons learned from the crisis: international financial organizations have not coped with the functions assigned to them. Now the governments have no clear mechanism for the coordination of macroeconomic policies. Besides, it has become clear that the creation of a *new architecture* is not a prerogative for any of the international institutions (the IMF and so forth). The initiative to make new proposals has fallen to informal debate in political forums such as the G20. Beneath our very eyes on April the 2nd, 2009 a new type of international institutions was created in London: The Financial Stability Board, which might start playing the most important role within the new post-crisis global financial architecture. The Financial Stability Board was established on the basis of the Financial Stability Forum that provided the greatest contribution among all other international institutions for the preparation of the G20 decisions.

Appearance of New Heroes. In the course of a world crisis a swift redistribution of forces occurs. The center of economic development is continually being transferred to the East. Investors and politicians have formed expectations that the locomotives of the post-crisis lift will come from developing markets and newly industrialized countries. Global discussions have confirmed the ambitions of new heroes, which have actively participated in forming world opinion and agenda. With their platforms concentrating on the reformation of the world financial system, China, Russia, Kazakhstan, and South Korea have led the charge. The appearance of new champions demonstrates the tendency of a peaceful motion towards multi-polarity.

The country that will be strengthened in the course of the world financial crisis will enjoy economic success and also achieve a new political status.

Problems with the Efficiency of the G20 Decisions. Currently, the G20 is claiming for the role of a leading global platform in the reformation of the world finance. In the G20, both the developed and the developing countries are represented. Unfortunately until now the G20 agenda has been more responding to the consensuses of developed countries. At present, there is no common platform for the developing world within the G20. Such an imbalance can lead to a loss of efficiency of the G20 by rendering impractical decisions and furthermore, aggravate member countries through contradictions that may escalate into conflicts. If the G20 aspires to become a world decision making centre, it is essential for the Group to go further in agenda development. Developing countries should play a more significant role in the expansion of the agenda.

World Currency. The agenda of the global discussion includes different questions pertaining to: coordination of anti-recessionary measures taken by governments and the central banks, reform of world economic institutions and rating agencies, offshore restrictions etc. Nowadays, among a wide range of questions on the current agenda, the most problematic issue, which may become a key factor in the world finance reform, is a reserve currency.

New Role of the West. For the first time since the end of the *Cold War*, Western civilization found itself in a situation of tough global competition. The future prosperity of the Western civilization cannot be guarateed; the future will depend on global problems resolution. Untill now the lack of its competitiveness has been compensated by the economically unjustified overflow of capital from developing countries into the developed that started in the 90's and that is stimulating unfairness in global exchange. However, this situation can not last forever, as it will lead to imbalances and a precursor for an unexampled strong global crisis based on civilization conflict. During the development of the crisis, we face competition not only between economic, but also between political systems. The traditional ideological principles of the West, such as democracy, tolerance, and the limitation of state intervention in economy are now being tested for strength. If the West desires to retain its leadership role, it must become a model and generator of innovations that considers every other country's position in the world. Nowadays, the West feels that it is economically *in the same boat* as the poorest countries and developing world. The notion of fairness of the world order can help the West to preserve its role of ideological leader, however, if western elites choose the ideology in retaining of the status quo, the initiative will move to someone else.

Communication against Conflict. There is a need for new forms of communication between the developed and developing countries. The more extensive the dialog and the wider the circle of active participants with initiatives will be the greater hope in a resulting consensus we will have. A special responsibility in retaining world equilibrium rests with independent countries, which are located out of the spheres of influence of the most powerful players. The independent countries, which are taking part in the global dialog, can become a factor of stability in a new multi-polar world. Today, a broad discussion on introducing safeguard measures for the prevention of falling into an economic and political conflict is ongoing.

The report *The Financial Architecture of the Post-crisis World* is addressed to the participants of the BRIC Summit, which takes place in Yekaterinburg, Russia in June 2009. The main objective of the report is to provide an intellectual summary of the current state of global discussion in financial matters pertaining to the crisis. In the report an analysis of both government papers and positions of the experts of various countries is provided.

It is apparent to us that the outline of a new world has already been designed but hasn't been fixed by certain decisions. So far, the platform of consensus has been structured only for a portion of the issues that are vital for the largest national economies of the world. In the mean time, the creative process in locating a future prototype is developing before our eyes. The issue which is now being sought is not *a formula of a world wealth*; at the heart of a new financial architecture of the 21st century will be another principle: the principle of fairness. Without the introduction of the principle of fairness the financial crisis will be repeated with an escalating conflict. Today, fairness is an equivalent to effectiveness and this is the major issue on the agenda. Any solution, which will be perceived as unfair, will turn out to be impossible.

We can see a special role of the BRIC in the future reform of world finance. These countries will become the main beneficiaries of the crisis in the 21st century. A relative strengthening of the BRIC is going in both the world economy and in world politics.

The BRIC countries should have strong political will, as currently, there is a lack of legitimate decision making in the world. The BRIC countries can devise the general platform of the developing world, which corresponds to the interests of the global community on behalf of all developing countries

The mission of our report is to aid in the first step toward the elaboration of this platform in future the BRIC Summits.

International Survey Passport

This report is the result of an extensive in-depth analysis of the proceedings of the G20 carried out by the Post-Crisis World Institute Foundation. Research was carried out in two areas: expert interviews and an in-depth analysis of official G20 documents.

1. Expert Survey

A survey of 223 experts from 51 countries of the world took place in April - May 2009. A group of experts was formed on two criteria: professional representation and country of activities.

Economists, financial analysts, proprietors, top managers of leading corporations, journalists who specialize in economic and political themes, scientists who carry out humanitarian and social research, politicians and officials, all participated in this survey.

Experts were invited to answer a number of questions, orally or in writing, in accordance with a standardized questionnaire. This allowed us to carry out both a qualitative and quantitative analysis of the obtained data[1].

FORM Of ACTIVITY COUNTRIES	Economy, Financial Aanalysis	Business	Policy, Public Service	Journalism	Humanitarian and social studies	TOTAL
DEVELOPING COUNTRIES:	**57**	**34**	**14**	**16**	**19**	**140**
The CIS countries	**23**	**23**	**8**	**13**	**9**	**76**
Russia	16	17	6	8	6	**53**
Ukraine	3	2	0	3	1	**9**
Kazakhstan	2	3	2	1	2	**10**
Others (Armenia, Belarus)	2	1	0	1	0	**4**
The Eastern Europe	**6**	**3**	**1**	**2**	**3**	**15**
The Baltic Countries and Georgia	3	3	0	1	2	**9**
Others (Albania, Hungary, Poland, The Czech Republic)	3	0	1	1	1	**6**
Latin America (Argentina, Brazil, Bolivia, Mexico, Peru, Uruguay, Chile)	**9**	**4**	**4**	**1**	**1**	**19**
Asia	**13**	**2**	**1**	**0**	**4**	**20**
South-East Asia (Hong Kong, Indonesia, Malaysia, Singapore, Thailand, Philippines)	10	1	0	0	1	**12**
India	2	1	1	0	1	**5**
China	1	0	0	0	2	**3**
The Middle East (Bahrain, Iran, Kuwait, Lebanon, Palestin, Turkey)	**5**	**2**	**0**	**0**	**1**	**8**
Africa (Egypt, Cameroon)	**1**	**0**	**0**	**0**	**1**	**2**
DEVELOPED COUNTRIES:	**39**	**27**	**5**	**6**	**6**	**83**
The USA and Canada	8	9	1	2	4	**24**
The United Kingdom	6	6	2	0	1	**15**
Western Europe (Austria, Belgium, Germany, Greece, Spain, Italy, the Netherlands, Norway, France, Switzerland)	16	8	2	2	1	**29**
Israel	1	0	0	1	0	**2**
Japan	3	1	0	0	0	**4**
Australia	5	3	0	1	0	**9**
TOTAL	**96**	**61**	**19**	**22**	**25**	**223**

[1] *The quantitative analysis was conducted on the basis of a coded minimum level of closure (maximum of 3 versions of answers). Taking into account the uniformity of selection in the category of the level of competence of respondents on the theme of questioning obtained, the results of quantitative data analysis can be considered valid and reliable (it comprises errors not more than 7% on the general population). We do not pretend to world representativeness, we represent an expert community; we set the trends of the moods of this community, determined with these or other objective factors.*

During the survey, experts have analyzed the results of meetings held at the G20 conference, which took place in London on April, 1st and 2nd 2009; an analysis of the contribution of international financial institutions provided in overcoming the crisis and the creation of a future financial system were raised; many opinions about decision-making mechanisms, which currently exist in world financial matters were discussed; forecasts about the prospects for the US dollar as a world reserve currency, possible changes to the world currency system and the creation of new world financial centers were provided.

The consequential analysis of the obtained results has revealed that experts belonging to either developed or developing countries often determine significant differences in behavioral trends and opinions.

Categorizing between developed and developing countries, which is given in this survey, is quite conventional as currently there is no consensus in terminology or classification of countries on the economic criterion. According to the level of economic development, there are many categories of countries such as new industrial countries, emerging market countries, expanding market economies, countries - importers of energy resources, *classical* developing states, countries with a command-administrative economy and so forth. In the 90's we spoke only of developed countries, the countries with a transitional economy (former socialist states) and developing countries. According to the global discussion unfolding today about the financial architecture of a post-crisis world, a major division runs between the *first world*, the old industrialized countries and the *developing world*, beginning with countries with a high level of economic development placed in this category because of historical bias (Singapore, Hong Kong), and ending with the least ***developed countries***. Here and after in the text we will use the term developing countries for all these countries.

2. In-Depth Analysis of the Official G20 Documents

In the process of preparing this report we analyzed about 60 documents, which both referred strictly to the process of the G20 and other official documents (including the main decisions of the London Summit, the materials of working groups, proposal of the individual countries and so forth) and the documents prepared by other international organizations for discussion within the framework of the G20. The complete list of the studied documents is provided in the Appendix 1.

The present report is the original experience of a combination of sociological and economic approaches of an analysis of the G20 process. The results of the expert survey have been analyzed by a team of authors under coordination of Ekaterina Shipova, Director of the *Post-Crisis World Institute Foundation*. The in-depth analysis of the official G20 documents has been carried out under coordination of YurI Danolov, Chairman of the Board of Trustees of the *Post-Crisis World Institute Foundation*. The Final Report has been prepared by the editorial board of the Foundation: Anastasia Veselova, Mikhail Mizhinski, Tatyana Overina, VitalI Sednev.

PART I

THE G20 SUMMIT: RESULTS AND AFTERMATH FOR THE WORLD FINANCIAL SYSTEM

CHAPTER 1. RESULTS OF THE G20 SUMMIT: EXPERT OPINIONS

The question about the results of the G20 London Summit that took place on April, 2nd, 2009 appears to be in a wide ideological context, which goes far beyond the agenda of this event. The opinions on the results and the significance of this event in overcoming the global financial crisis is becoming something like *litmus paper*, which has sharply divided the expert community and the intellectual elite of the world into two camps.

For some countries it is a step *forward*: for the first time the governments of different countries were able to reach an agreement about a set of measures, which will help to soften the consequences of the crisis; it is the first step to overcoming system risks and to the reestablishement of trust. For others it meant missed opportunities of a major overhaul of the financial system and of taking serious steps to prevent future crises and to eliminate the imbalance of interests between developed and developing economies. In some questions the opinions of the experts from developed and developing countries are the same, while others separate representatives of the *old* and *young* economies on two different sides of a fence.

Economics or Politics?

According to the expert opinions concerning the results and significance of the G20 London Summit, the participants of our research were divided into two nearly equal camps. Some of them noticed a mainly political significance of the actions. The others thought about the probability of serious economic consequences of the decisions. which had been made at the summit.

The experts saw the positive political results, first of all, in the fact that the developing economies were able not only to express their opinions but also to strengthen their influence in world discussion. Moreover, according to many experts, the expanded format of this summit is an indicator of new and inevitable tendencies in the world distribution of forces.

Roberta Rodrigues da Silva, Brazil, Professor of Economics, Brazilian Institute of Capital Market, IBMEC: *"The G20 Summit has presented us a re-design of the international decision-making process — at least in the financial matters. I think the countries reunited under the rubric "BRIC" — Brazil, Russia, China and India — will perform a more important role in this process from now on."*

Evaluating the consequences of the decisions, which were taken at the summit, for the world economy, participants of the research have two main issues: whether it is possible to speak about practical results of the last meeting at the *highest level* and whether the accepted agreements have declarative character or they can serve as a real guide to action. In this case, the expert opinions are sometimes completely different. The optimistic mood is mostly connected with the fact that the leaders of the largest powers understand the necessity of united actions in overcoming the consequences of the current crisis, which proves their real readiness to follow this course.

A part of the pessimistic participants of the survey consider the agreements reached during the summit as purely declarative that will not bring any positive shifts. But the major part of pessimism by our experts marks that there is no fundamental approach in the estimation of the reasons of the present crisis and the unwillingness of country-leaders to change their status quo and take real actions to re-adjust the economy.

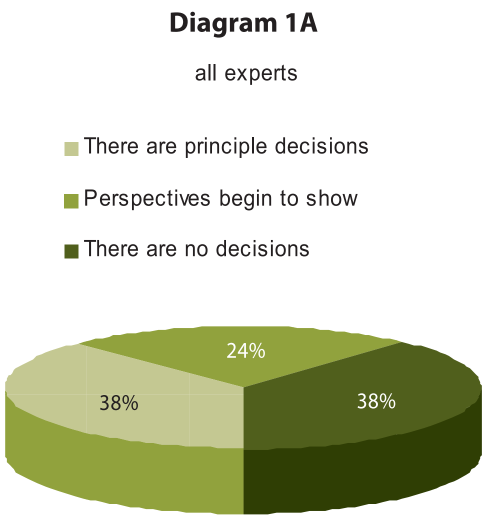
Jean Charles Rochet, France, Professor of Economics, Toulouse School of Economics, University of Social Sciences: *"This was a unique opportunity to reform the international financial system. Even though some governments have claimed that they were really eager to do that, the political pressure of interest groups in the UK and the USA have been conducted to prevent this reform in depth."*

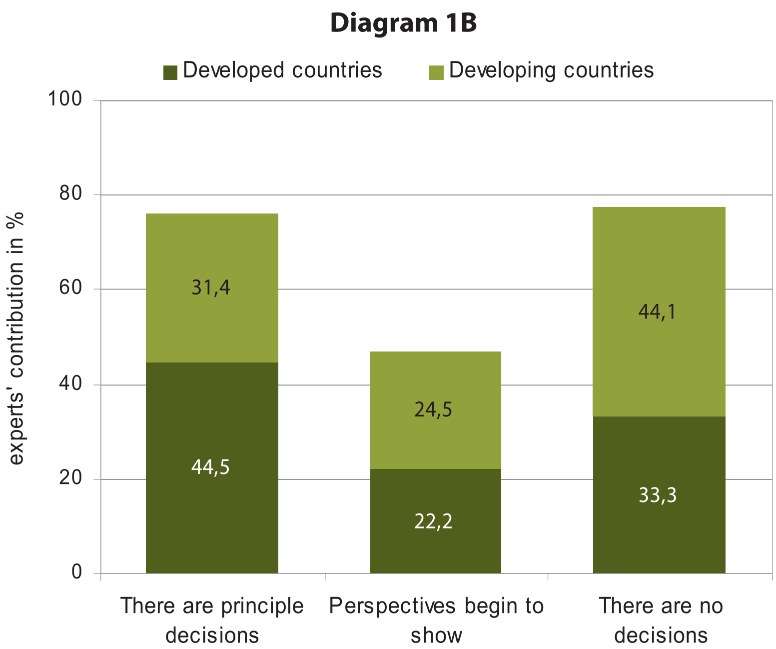
The character of discussion of the results of the London Summit reminds us of a well known dichotomy: is *the glass half full or is it half empty*? And a further analysis of all pro's and con's, remarked by participants of the survey, *only add color to this picture*.

Jaime Pozuelo-Monfort, Spain, Financial Economist: *"The recent G20 Summit in London that took place on 2 April 2009 set the pace of the financial reform that should change the structure of the economic and financial architecture that has been operating since the Bretton Woods summit of 1944. The big winner of the first two summits was the International Monetary Fund (the Fund hereafter). The Fund tripled its reserves. The big losers were the fiscal and tax havens. This is a victory and a loss for the alter-globalist movement, who would have expected and hoped for a more radical transformation of the Bretton Woods Institutions. It is however not a bad beginning* *in the difficult financial times we are currently experiencing, times where the lack of creativity and leadership among our political elite is a manifest."*

Does a Guide to Overcoming the Crisis Exist?

While conducting our expert survey, we put a question to our participants: **"Have there been made any fundamental decisions, which can bring the global economy out of the crisis, during the latest summit of the G20? And if so, what are they?"**





Different answers to this question demonstrate quite expected tendencies. Two equal groups of experts, about 40% each, believe in the decisions that were made at the summit as either a way out of the crisis or, on the contrary, deny the availability in them (Diagram 1A). A quarter of participants of the survey are more careful in their judgments: marking the absence of *breakthrough* decisions, they, nevertheless, mention future positive prospects. Herewith, as we can see on the Diagram 1B, experts from developing countries are much more categorical in the denial of positive results, and experts from the *old* industrial countries have completely different positions, of which, opinions of the summit results are much more favorable. In this case, quite remarkable is the position of Russia: negative answers were given by nearly 60% of participants.

The Glass is Half Full

A step to *restoration of trust*. According to a significant part of the experts, the real achievements are in the formation of partner relations between participating countries of the G20 and their readiness to agree on actions in making a number of commitments. Their readiness to take *a step forward* has been regarded as a step in *restoring trust* and considered as a positive result.

Ruslan Grinberg, Russia, Director of the Institute of Economics at the Russian Academy of Sciences: *"Despite many of my colleagues, I strongly believe in Group of Twenty. I believe that that in some sense it is the prototype for a future effective international regulation mechanism of economic and social problems. And Russia itself feels more comfortable here than within the Group of Eight, where we have to wait in the lobby, while the elders have a kind of a discussion about the economy."*

Concrete steps in solving the issues of the day. Experts usually chose a package of stabilizing measures, which means, allocation of additional resources to the IMF and other global financial institutions (for support of growth in developing countries and promotion of trade) and softening of consequences of the crisis in economy as the main results of the summit. The second thing mentioned are the measures against offshore tax havens. A part of participants of the survey also paid much attention to the significance of the reached agreements against protectionism.

Nirvikar Singh, USA, Professor of Economics and Co-Director of the Center for Global, International and Regional Studies at the University of California, Santa Cruz: *"The decisions on funding global trade and for the IMF are both very important. The tone and nature of the agreement were very important for building confidence. Obviously more is needed to be done in terms of shoring up the individual financial systems, for example, in the USA, but I think that the G20 did whatever it could at that meeting."*

On the way to system solutions. Only a narrow group of experts marks a package of measures for strengthening financial oversight and regulation as the main result of the summit. They regard the decisions which were made during the summit as the basis of the systematic approach to regulation of financial markets.

Zhanat Kurmanov, Kazakhstan, Independent Director of the Kazakhstan Deposit Insurance Fund: *"At the G20 Summit in London a number of very important decisions were taken, they can be divided into two groups: Short - and medium term measures for the maintenance of liquidity and stabilization of the world financial system with the help of the international financial institutions (the IMF and five continental international banks of development) and for the international sales support; 2) realization of system regulatory measures which in the long term is likely to contribute to more sustainable development of the world financial system. However, these measures, which are basically concentrated on the problems of the global financial system, are not enough to remove the accumulated imbalance in the world economy. To overcome the crisis, time and additional system measures are required."*

The Glass is Half Empty

As it has been noticed earlier, a significant part (about 40%) of participants of our survey are experts who don't believe that the decisions made on the London Summit can help the world economy to cope with the crisis. The opinion that the meeting of *the G20* has not brought out any effective solutions is connected with a circle of explanatory models. Some of them have *ideological* connotations and some can be determined by *objective distinctions and obstacles*.

1. The old financial elite will not allow the revision of the existing status quo. Prevailing interests of the USA to dominate the agenda as they are not interested in making any concessions, even on a small scale to maintain a dominating presents in the world finance.

2. No steps have been made for the revision of the financial architecture. According to experts, it is connected with a misunderstanding of the grounds of the crisis; absence of ideas about how to move forward; unavailaunwillingnes to solve systemic questions, etc. Some participants of our survey even connected it with the absence of innovative leaders and with the incapacities of present political elites in general.

3. Incompatible interests and *the coordinate system* of G20 countries. Here the main point is the fundamental divergences in the approaches of the countries to the estimation of the current condition of the economy and to the selection of the priority reforms, and at this stage it becomes an insurmountable barrier on the way of making agreements.

Michael Pettis, China, Senior Associate, Carnegie Endowment for International Peace, Professor of Finance, Guanghua School of Management, Beijing University: *"The G20 accomplished almost nothing in terms of addressing the economic causes of the crisis. In my opinion there are two very separate issues. The first is the actual process of financial crisis. I don't think the G20 could address this directly but I think the individual countries must repair the imbalances within the banking system as quickly as possible. The second thing, the economic crisis, is quite different and for me that is what the G20 should be addressing, but they, and in fact, most of the global organizations are not doing enough. For a very long period, especially during the past ten years, a number of countries, most especially the United States, experienced consumption growth that was much higher than the GDP growth. The crisis is to a large extent the forced rebalancing of that unsustainable process, and we have to deal with the fact that we will now see much slower growth and even a contraction in consumption, especially in the United States and in the other deficit countries. This contraction is something about what we can do almost nothing, and the G20 needs to address the economic implications, especially for the surplus countries who have the most to lose... Europe and China agreed that they needed to change the financial architecture, but Europe is interested in creating a supranational regulatory framework, and China, like the United States, is not eager to support initiatives that constrain sovereignty. When the Chinese talk about the problems in the financial architecture they mostly mean the reserve status of the dollar, while Europeans mean the actual framework that regulates financial institutions. China and the US also agree on the need for massive fiscal expansion, whereas Europe disagrees."*

4. The taken decisions have redundant characteristics. As the majority of the decisions made at the summit are, as a matter of fact, just declarations of intentions, most of them will not be realized in reality. For the specialists from post-Soviet countries, this problem mostly means the replacement of global problems by local interests: as soon as all participants *return to their homes*, internal problems begin to dominate.

It is important to point out the ambivalent relation to future strengthening of state intervention in a market economy that appeared among the experts. In some way, this theme has something in common with the theme of the previous report of our Institute (*Post-USSR: Assessing Government Anti-Crisis Actions*), where the political will was considered by many participants as an important component of a state *safety factor* during a crisis.

So, the positions of the participants with regards to the results of the G20 London Summit have divided them into two nearly equal camps: those who supported and opposed the course of actions in defeating the global financial crisis declared at the meeting of the G20 leaders and those satisfied and disappointed in the number of *global decisions* proposed to the world. It is also clear that the deviations of opinions concerning the same events and decisions mostly depend on the level of expectations of our experts from this global event and of the original *starting point* of the crises. *Supporters* demonstrate *the evolutionary* approach in opinions: any consensual arrangements on concrete measures and any attempts of system steps, even on a minor scale, are considered to be breakthrough achievements. *Opponents* have a more *revolutionary* approach: the opportunity to reform the financial system and to prevent future crises has been lost. Opposite trends in opinions of representatives from the developed and developing countries are easy to explain. Experts from developing countries have higher expectations about the current opportunity of *young* economies to strengthen their position in the global decision-making process. Accordingly, the number of disappointed among them is higher.

Stress Test for the Summit Decisions

Answers to the following questions became test indicators of the participant's opinion of the results of G20 Summit in London:

- **Will the accepted decisions make the world financial system play by uniform rules?**
- **Will the accepted decisions make the world financial system open and transparent?**

Here, in the answers of participants, the survey shows the same tendency, as in the previous questions connected with the presence or absence of fundamental decisions of the summit, which can help to overcome the crisis. However, as it is shown in the Diagrams 2 and 3, the level of pessimism of experts (the number of negative answers) concerning the estimation of these aspects has considerably increased.

The Common Rules of the Game

> **Gerald Bowers, Ukraine, General Director of British Business Club in Ukraine:** *"This question leads to another question: "Who will determine the rules?"*

Diagram 2A

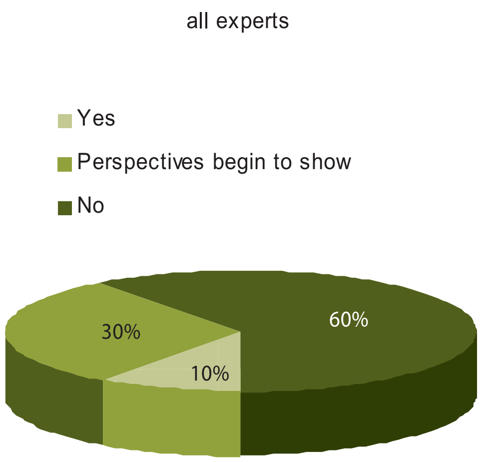
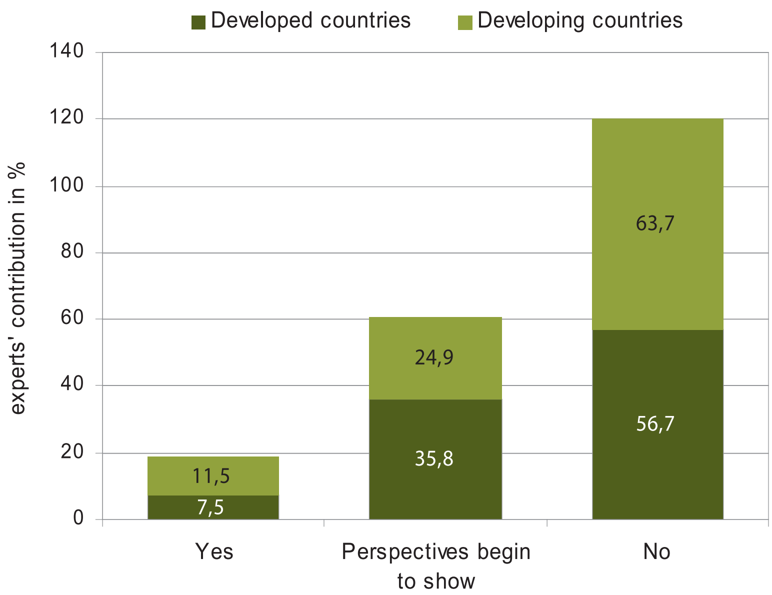


Diagram 2B



An interesting fact is that the participants of the survey were extremely skeptical about the development of uniform rules. Herewith, although the experts from the developed countries are still a little more optimistic (though their optimism is rather restrained), and the experts from the developing countries are more critical; the general trend in their opinions completely coincide with the formula: *more against, than for it*.

40% of the experts believe in the possibility of effective financial regulation. While only one in ten participants mark concrete steps made in this direction as the factor of increasing the probability of imposing uniform game rules in the future. The *restrained optimists* basically assess the attempts of the G20 leaders to reach agreements in general principles and approach the development of uniform regulations in the financial markets as a positive result.

Felippe Cademartorl Araujo, Japan, Economist, Nagoya University: *"Not rules, but general principles, achieving consensus over which was a remarkable step for a high-ranking political summit. More should be expected from the G8 finance ministers meeting in June, and from further meetings of the G20 finance ministers."*

But the majority of participants of the research, almost two thirds, considers that the results of the summit have not contributed to the development of uniform rules of functioning of the financial system at all. Many of them think that these rules will not come into effect even in the nearest future because of a number of system factors. As a matter of fact, there are explanatory models which are quite similar with the models described in the previous section.

A) Extremely different interests and incompatible crisis conceptions between countries: and sometimes quite polar concepts of the reasons of the crisis and the ways out of it. Common trust during the crisis will interfere with real attempts to establish any uniform rules to function in the world financial system. A number of experts underline the fact, that while there is such a significant imbalance in entry conditions for developed and developing countries (for example, a disproportionate amount of currency risk or the level of state support of domestic manufacturers) the achievement of uniform game rules is impossible. Dominating interests of the developed countries are the main obstacles for real advancement to this question in achieving any significant steps.

Yaroslav Lisovolik, Russia, Chief Economist of Deutsche UFG: *"From the point of view of the possible decisions of The Group of Twenty, the most remote factor is time. So far we can hardly say that any real possibilities of equal interaction between the developed and developing countries can be seen on the horizon. I think that this problem is not solved yet, and it will be solved only when the developed countries will show, with their own example, that they are for an open market and against protectionism both in trading and in the investment area, but unfortunately in practice this is not visible."*

B) The summit has not given enough answers on the key questions of reforming the financial system concerning world and regional currencies, financial speculation, toxic assets, derivative tools and so forth. This will not allow the creation of a uniform set of regulations within the financial market. It means, that the development of necessary mechanisms and tools which would encourage the introduction of similar rules would be impossible.

Ngaire Woods, UK, Professor of Economics, Oxford University, Director of the Global Economic Governance Programme: *"In my view the G20 leaders faced probably four big challenges that should have been addressed. The first is financial regulation and on financial regulation they made some small steps. It was a good idea to strengthen the Financial Stability Board. But they have not made strong enough steps towards a strong global regulatory regime. They need to make it clear that there will be a new set of rules, they need to make it clear that the rules are properly monitored, which means strengthening the IMF and having it work with the Financial Stability Forum. They need to make sure that the rules are enforced. On financial regulation they've taken one very small step but they need to take a much bigger step. The second had to do with the fiscal stimulus and that's where the SDR allocation is important. That's what I was talking about regulation because I think that was a good step. What they did not resolve on the fiscal stimulus was protectionism and the clash between giving assistance to one's own economy and the form of bad performance of protectionism against other economies, and they haven't resolved that. What I did agree is that it would be the monitoring of what countries will be doing; but after 2008 the World Bank monitored what 19 leaders agreed when they met in November, they all pledged not to try protectionism. The World Bank monitored those who pledged and found out that 17 of the 19 were trying protectionism, so monitoring itself is not enough. The third thing they had to do was to find ways to assist and protect developing countries from the crisis that was not of their own making and they gave some very limited assistance. Most of what they announced was stuff that had already been announced, so they've made it an important step but it was too small. If we look* *at the opinions of the impact of the crisis on developing countries we can see that the G20 did the minimum, in my view, that they could do. But they need to do quite a lot more, in particular to address natural programs. And the fourth issue they have to address is about reforming the IMF and the World Bank, seriously reforming them so they can do all the previous three jobs. They dramatically need to reform the IMF in order to monitor financial regulation. They seriously need the reformed IMF and the World Bank to do fiscal stimulus and they need a seriously reformed IMF and the World Bank to assist developing countries in dealing with this crisis. And so the fourth element was reforming the IMF and the World Bank."*

Also a number of participants of our survey expressed the opinion that attempts to create uniform, general regulations is basically the wrong way to go based on the logic of market development. Among the Russian experts this point of view has found another interpretation: it is untimely as an era of *de-globalization* is coming.

Konstantin Simonov, Russia, Director General of the National Energy Security Fund: *"Crisis is an attack on the philosophy of the global monetary system in general. Yes, we see the attempt to struggle with, for example, offshore tax together, but in general, I think that the crisis is more likely to make it more isolated, and the G20 doesn't solve this problem."*

As we can see, during the development of uniform rules, a much larger number of experts than earlier discuss the necessity of revisions to the existing world financial architecture. However, if one concentrates, first of all, on financial system reform, regulative and supervisory problems in the financial markets, problems with the world monetary system; all translate into questions with more importance directed to equality such as fairness arrangements in a new world financial architecture but all dramatize an unbalanced theme in the interests of countries with different levels of economic development.

Openness and Transparency of the World Financial System

Merab Pachulia, Georgia, Director of the GORBI Gallup International: *"The things which are written on paper are not the same as made decisions. All discussions and correspondence should be transparent."*

The opinions about the question "Will the decisions made at the summit make the world financial system open and transparent?" demonstrate the same coordinated trend of expert opinions that is *rather no than yes*. However, for the first time, in answers to these questions, we see a tiny *reverse roll* in tendencies of distribution of positive and negative opinions: precisely experts from the developed countries are more pessimistic in their estimations than the participants of the survey from developing countries.

Half of the participants of our survey are skeptical about the assumption that the results of the London Summit will contribute to an openness and transparency of the world financial system in reality. According to many of them, it is connected with the same contradiction of interests and policy toward the main players on the market.

Diagram 3A

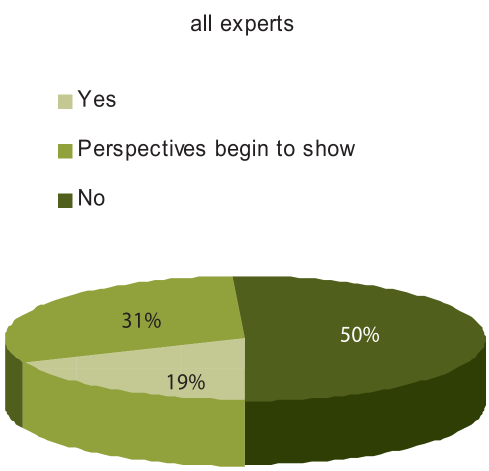
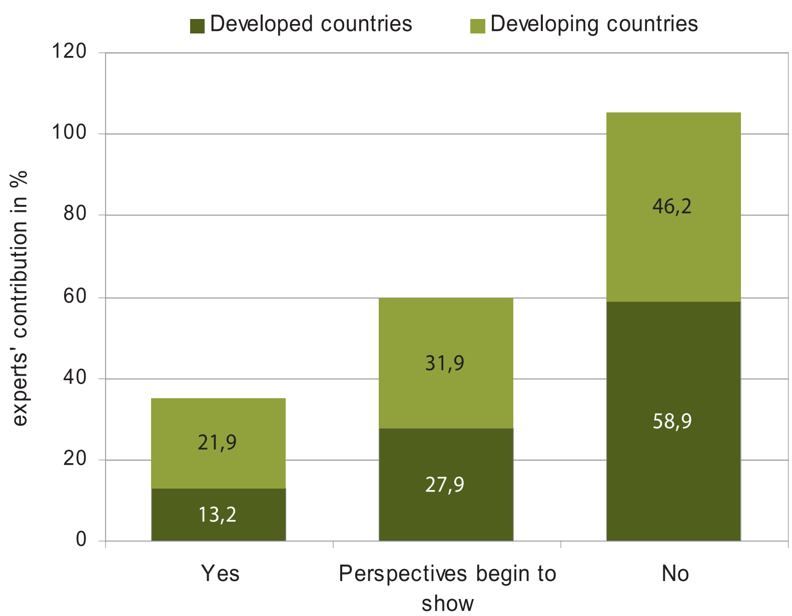


Diagram 3B



According to others, the decisions made at the summit do not include the key questions and problems which are connected with the reasons and essence of the current crisis and the solution of which would allow greater openness and transparency of the world financial system. Offered measures, are far from resolute reforms and have, more likely, a *cosmetic* character.

Jacques Sapir, France, Professor of Economics at the School for Advanced Studies in the Social Sciences: *"No decision explicitly focuses on transparency. One can imagine that less leeward left to tax heaven could improve transparency. So far, no actions have been implemented to restrict derivative trade or to limit short-term capital flows, which have proved to be a distinct factor in the destabilization of so many countries."*

In the camp of the more optimistic experts the opinions show two main general points of view. One group of participants of the survey assumes that the strict adherence to the decisions accepted at the summit (connected with imposing a more efficient universal system of financial reporting, measures taken against tax havens and the toughening of controls of the international institutions over the activities of rating agencies) will automatically contribute to the creation of a more open and transparent world financial system. The other and more numerous group doubts the potential of the accepted decisions, but nevertheless, draw attention to the necessity of further concrete implementation of the offered initiatives but doubt the very existence of adequate tools and mechanisms at this date for their realization

Sumru Altug, Turkey, Professor of Economics, the Centre for Economic Policy Research, Koc University: *The measures to set up the FSB and to try to outlaw tax havens are attempts at greater transparency. Likewise, new global rules to govern the pay and bonuses of bankers are likely to help restore the health of the international financial system. However, the inability to agree to give the newly founded FSB powers to resolve cross-border disputes involving international financial institutions is not likely to promote greater transparency or to help in the regaining of confidence by economic players of various forms.*

Rather remarkable is, in our opinion, the fact that the issue of imbalance of interests between developed and developing countries and of a fair world order has been removed to a second plan and is not at the top of the list of priorities for many survey participants. It is quite natural, on the basis of the very essence of a question of transparency in the financial system. However, it seems that the above-mentioned *reverse roll* to the side of the less radical position of experts from the developing countries is explained by this. Absence of an unequivocal rigid adherence to the above-mentioned fundamental problems means an absence of overestimated expectations concerning the decisions accepted by the G20 for a certain portion of expert community. It means, a more positive attitude to the opinions of the results of the London Summit concerning the transparency of the world financial system by representatives of developing economies. And on the contrary, the question of creation of uniform game rules, as was mentioned above, stimulates the discussion about the necessity of the global revision of the financial architecture taking into account the requirements of emerging market countries and the poorest countries. Accordingly, here can see more negative opinions about the results of the summit of the experts from developing countries, as well as recognition of the existence of any breakthrough solutions, which can help the world economy to overcome the crisis.

As for the experts from the developed countries, they are much more critical in opinion of decisions of the summit, first of all, concerning strengthening of financial supervision and regulation, and on the contrary, estimating the accepted plan of action of overcoming the global financial crisis and the offered package of stabilization measures quite positively.

Two Worlds – Two Systems of Coordinates

Summarizing the given chapter, we have come to the conclusion that a palette of opinions and verdicts range from a *salient and unprecedented event* to *disappointment by intellectual degradation of those who try to impose their understanding of solutions to the crisis to the rest of the world*. We have eventually reduced the study to a limited circle of central problems and questions in which the expert community is interested.

Thereby, the vectors of opinion regarding the results of the London Summit of the G20, by different groups of experts are substantially defined by fundamental *ideological platforms*. Expectations from a meeting of leaders of the countries of the the G20 and the *starting reference points* in the qualification of the results of the summit have been formed in compliance with these platforms. As a matter of fact, one part of the expert community was in favor of a reformation of the global financial SYSTEM, while the other, in the reformation of a global financial ARCHITECTURE.

In both cases there are the satisfied and the disappointed: in both camps there are representatives of the developed and developing countries - the question remains of their proportions. The theme of a new financial architecture seems to be more connected with the interests of *young* economies; this is why the group of dominating supporters in favor of global reform of financial architecture represent developing countries. And as these countries are *sickened* with the problem of a fair world order, there is an obvious trend to estimate the events in a special way and on a corresponding scale. Either the selection of the *old regime,* which is correspondent to the interests of the *old* financial elite in preservation of the status quo and provides for slight local *victories*, or of a *new regime,* which would mean a multi-polar world and the necessity of radical change; a monumental reconstruction of the financial architecture and *fairness for everyone*.

As to that part of the expert community who are interested in the global reform of a financial system precisely, it is quite clear that representatives of developed countries are dominating in opinion. That's why the main problem of this group is the creation of a system of regulatory mechanisms, which will promote a more sustainable world financial system and to the future prevention of crises.

Simply, the entire spectrum of opinions of our multinational pool of experts concerning the results of the London Summit of the G20 can be presented in the Cartesian system of coordinates, where on the *X* axis, according to the paradigm of the *fair world order*, the quality of decisions from the point of view of an alignment of balance of interests and possibilities for developed and developing states is assessed; and on the *Y* axis, according to the paradigm of the *efficiency of functioning of financial markets*, the quality of made decisions is assessed from the point of view of regulatory and supervisory mechanisms.

Nevertheless, in our opinion, a certain deficiency in the information has played a special role in tonality and the content of the discussion round the results of the latest summit. The sources of selection of various solutions, the reasons for various arrangements, the roles of different countries, institutions and organizations - much of this has not been disclosed to the diverse expert community.

Michael Kuczynski, UK, Professor of Economics, University of Cambridge: *"This summit is a very small tip of the iceberg. The whole world communicates through treasury or central bank negotiations. The last summit was in that sense a little progress. There were more manifestations."*

Apparently, the lack of transparency of which our experts are speaking, has shown itself in the questions concerning the process of decision making, which are extremely valuable for the global community. That's why we think that it is important to analyze the decision making process of the G20, which results were presented to the global community in April, 2009 at the G20 London Summit.

CHAPTER 2. ANALYSIS OF THE INSTITUTE: DISCUSSIONS AND DECISIONS WITHIN THE G20 PROCESS

The London Summit decisions are the result of almost a half a year long intensive global discussion, which is, in turn, based on the developments of different international organizations and individual countries of the previous approximately 5 years. The description of the key summit decisions is provided in the Appendix 2 of the current report.

None the less important to us is the study of the of decision making process within the G20, and also the analysis of the role of individual international organizations and associations in this process and an analysis of the structure of the discussion, since these elements depict the development of the global post-crisis financial architecture.

Decision Making Process Structure. The Role of International Financial Organizations and Associations

The decision making process of the London Summit is modestly depicted in the following chart (Diagram 1):

Figure 1

A substantial part of the decisions of the G20 are based on the proposals of the Financial Stability Forum (FSF). In a number of cases this is directly indicated in the Appendix 1 in the Communique of the London Summit on the 2nd of April 2009: The Declaration on Strengthening the Financial System. It discusses the approval of the principles developed by the FSF, concerning bonuses payment and rewards in large financial institutions. In other cases there is no such an indication, but the FSF recommendations are used in practically the original form[2].

A large number of decision drafts, that taken into account while preparing the G20 decisions, were formulated by other international organizations and associations, among which were the International Organization of Securities Commissions (IOSCO), the Bank for International Settlements (BIS) and the Organization for Economic Cooperation and Development (OECD). Thus, the IOSCO developed the Code of Conduct Fundamentals for Credit Rating Agencies, in accordance to which the credit rating agencies must be regulated and controled, according to the London Summit decisions.

Another important source of the decisions made at the G20 Summit are the materials presented or submitted by the working groups and organized in the course of the G20 process in accordance with the decisions

[2] *For example, much of the FSF time spent had been devoted to questions directed to the adequacy of capital of financial organizations, creation of reserves for bad assets, the regulation of financial leverage, modernization and standards of financial reporting, increase in effectiveness of prudential supervision, increase in transparency and to other important questions of the day.*

of the Washington summit on November 15, 2008. In turn, the working groups actively used allotted drafts prepared by the FSF and other international financial institutions and associations.

In accordance with the decisions of the Washington summit of the G20 (November 2008), the following working groups were created, each of them submitted a report:

- The Working Group 1 — Enhancing sound regulation and strengthening transparency
- The Working Group 2 — Reinforcing international co-operation and promoting integrity in financial markets
- The Working Group 3 — Reforming the IMF
- The Working Group 4 — The World Bank and other multilateral development banks (MDBs).

The report of the Working Group 1 was founded on the principle that the proper regulation of the financial sector in all countries according to common international standards is vitally important for maintaining the stability of the global financial system. In the report it is emphasized that the current crisis had in its foundation an accumulation of system vulnerabilities and imbalances within the financial system together with the excess of liquidity and the adoption of the unsubstantiated level of risk and leverage.

In general, the recommendations presented in the report of the Working Group 1 provide actions on the overhauling of regulations within the financial system and are to be concentrated in the following basic areas:

1. The national systems of micro-prudential regulation and supervision must be augmented by an effective system of macro-prudential supervision. It is necessary to also create an effective mechanism for evaluating the system risks of the global financial system at the international level and develop a coordinated regulatory response in reduction to such risks.

2. The framework of regulation and supervision must be extended in such a way as to cover all systematically significant financial institutes, markets and tools.

3. With the improvement of the situation with the world financial system, measures will have to be undertaken that are directed toward the introduction of international standards, which foresee an increase in the requirement of liquidity and the implementation of buffers of capital in financial organizations. The requirements of regulation must provide for the growth of the buffers of capital in favorable periods of the economy for the subsequent smoothing of the negative effects in periods of stress.

4. It is necessary to introduce a balanced, integral and effective system of regulation based on international standards. It is necessary to render a judgment on a regular basis from the control systems and supervision, acting in all G20 countries to the item of their adherence to international standards, and to publicly reveal the results of these judgments.

5. The organization of correct micro-prudential regulation in conjunction with a system of macro-prudential supervision presently requires an expansion of the principles and tools used by regulatory policy.

(It is possible to become acquainted with the recommendations of the Working Group 1 in the extended version of the report at the web-site of the Institute).

The report of the Working Group 2 illustrates a survey conducted at the beginning of April 2009 from work based on the realization of an action plan gathered from the aforementioned reports along with formulated recommendations based on the follow-ups that must be undertaken for an improvement in international collaboration and integrity of financial markets. The positions of the Working Group 2 were formulated from the following questions:

1. Organization of collaboration in the area of regulation and supervision.
    - Joint institutions of supervision (oversight boards).
    - Collaboration in areas of regulation and the mechanisms for the exchange of information.
    - Strengthening trans-border mechanisms to oppose crises.
    - System of settlement arising from disputes and bankruptcy legislation.
    - Unified approach to regulation in the area of bookkeeping, audit, and securing of deposits.
    - Implementation of special measures to battle the crisis and further develop market relations.
2. The role of international organizations, which are to carry out the development of regulation standards.
    - Decisions of the FSF.
    - Questions of control by the organization of the IASB and other organizations.
    - Interaction between the FSF and the IMF.

- Lessons from the crisis.
- Receptivity to system regulations with financial innovations.
- Appraised cost of activities.

3. Securing the integrity of the markets.

- Pervention of manipulation and abuse of financial markets.
- Non-cooperative and opaque jurisdictions coupled with risk and illegal activities, the FATF, and the exchange of tax information.

This report, in our opinion, does not have an independent value. In essence, it is expressing support to the positions and recommendations that were earlier developed by international organizations and associations, firstly by the IOSCO and the BIS.

The report of the Working Group 3 proposes measures to reform the International Monetary Fund.

The measures that require immediate attention provide for collaboration between the authorities and the FSF and the influence in which they must be extended; an increase in credit potential funded by means of additional liquidity infusions; the ratification of a packet of measures for a change in quotas and the equal distribution of voices aimed at increasing the resources of the fund; the urgent introduction of more effective measures for averting crises and tools associated with instruments of resolving disputes or legal matters.

The measures of an intermediate-term provide for the introduction of the multilateral supervisory roles (especially for those member nations that are at present the largest financial centers, the countries with a high level of debt and countries with large trans-border capital flows), having to specifically focus this supervisory role on the risks that threaten financial stability; the improvement of current assessment practices of the financial sector for purposes of increased growth, while at the same time, securing regular assessment results; an increase in influence from developing countries in the administration of the fund.

Furthermore, the Working Group 3 provided a supplementary report that formulated additional recommendations, which proposes to re-examine the mandate of control of the International Monetary Fund. The report also presented a quality vision of the main areas of the IMF overhaul, after stipulating that this vision is not accepted by all members of the Working Group 3. Here are the four main areas of the proposed overhauls of the IMF:

1. The supervision of system risks. The vulnerability of the financial system can be caused by a multitude of circumstances attributed to unpredictable events such as less than able politicians, maladjusted rates of change, a securities boom, nonpayment of credit, external imbalances, and calculated shortages provided during the prediction of future trends.

2. Coordination of reciprocal macro-prudential measures for signs indicating system risk. The collective decisions, such as the decisions at the level of the G20, and assessment of the signs of system risks on an international scale must be led to those, who develop policy and possess the authority to act.

3. Trans-border agreements regarding financial regulation. These efforts are necessary to avoid disagreement between member nations and the actions of the regulator, and also to foster a fair distribution of responsibility between member states and international financial institutions.

4. Support of liquidity. The IMF performs a key role in providing short term liquidity to countries. It is important to understand that this process is effective when the fund possesses sufficient resources and the procedures of aid are clearly determined.

The report of the Working Group 4 ascertains that Multilateral Development Banks (MDB) and other international financial organizations must strengthen their actions in compensating their drained capital and creating a demand for capital by means of financing trade, recapitalizing banks, and expanding infrastructural investments in countries with low incomes. In this report, the basic principles and tools of reform were determined after dividing them into 4 groups (the extended version of the report by Working Group 4 is provided on the web-site of the Institute):

- The Working Group 1 – Common Principles for Reform;
- The Working Group 2 – Crisis Instruments;
- The Working Group 3 – Resources and Capital Adequacy;
- The Working Group 4 – Governance Reform.

As the important source of decisions were used the results of the G20 Finance Ministers meeting in Horsham, UK on March the 14th, 2009 and also the de Larosiere report, commissioned by the President of the European Commission, José Manuel Barroso.

The last two sources of decisions of the G20 can be considered as projects proposed for preliminary solutions; on the one hand, by the group of the finance ministers of the G20 and on the other, by the European community. Thus, at the April summit, drafts of decisions were prepared and discussed at the gathering of finance ministers and countries of the European Community. They accumulated the proposals of individual countries and international financial institutions and consolidated them. In a sense, these plans of collective solutions can be considered as the basis around which, the London Summit was held.

The de Larosiere report provides an analysis of the reason of the appearance and growth of the financial crisis. It also contains a proposal with regards to a new regulatory body representing a new regulatory model that must give pulse to the regulation of financial markets at the level of the European Union and beyond. The declared purposes of the proposed model are as follows:

- Smoothing system shocks through an increased role of risk management systems, weakening the factors of cyclicity, which serve as a catalyst of crisis phenomena and an increase in transparency;
- Application of a mutually accepted European system of micro- and macro-prudential supervision that will complement a common European market with valid rules of competition;
- Introduction of effective procedures of management in times of crisis, an improvement in interaction and an increase in the mutual confidence of the regulation and supervision institutions in different countries the of European Union and the world.

Besides this report, a number of concrete recommendations have been introduced to successfully and significantly decrease the possibility of developing crisis phenomena in the financial system in the future.

The de Larosiere report highlights the following critical areas of importance that are most strongly as perceived to require new policies of regulation:

1. Strengthening macroeconomic policy and macro-prudential analysis.
2. Overhauling of requirements for the sufficiency of bank capital within the framework of *Basel II*.
3. Credit rating agencies (CRA).
4. Standards of financial accounting.
5. Insurance services sector.
6. Authority sanctions of supervision institutions.
7. Parallel banking system (HP’s, private of equity…).
8. Securitization of financial products/markets for derivatives.
9. Investment trusts.
10. Further harmonization, the sequential and uniform application of requirements of regulation and supervision in the member nations of the European Union.
11. Corporate governance: compensation policies and risk-management.
12. Creation of a crisis management system for the European Union.

It should be noted that the presented in the de Larosiere report critically important directions of improvement on regulation are noted on the basis of an analysis of European problems and the problems of the European financial markets. The proposed recommendations are formulated in connection to European realties and institutions. They, to a considerable extent, intersect the solutions of the G20, but a substantial part of those recommendations can only be realized when a high level of integration is presented.

The de Larosiere report supports exceptional interest, also by that fact, that there are clearly and fully formulated basic trends in further development of the integration process of Pan-European regulation, including the creation of a supranational control system with supervision and supranational institutes of regulation. More details about the measures in this area (see Chapter 7 of the Current report).

Based on the account of the process in providing solutions by the G20 as mentioned above, it is possible to determine the role of individual international financial organizations and associations in introducing solutions to the G20.

In this plan the Financial Stability Forum prevails absolutely. Active collaboration among leaders of the largest countries of the world on averting and overcoming the crisis began at the beginning of 2008. In April 2008, the FSF presented a complex package of recommendations regarding resolutions to weak areas revealed by the crisis, and to strengthening financial systems in the future (the *FSF report about the im-*

provement of market and institutional stability) to the finance ministers of *the Group of 7* largest industrialized countries and to leaders of their corresponding Central Banks[3]. The foundation of this analytical report was based on the basic causes of the global credit crisis; thus a balanced package of measures to oppose the crisis was introduced for the first time. The pinnacle of the recommendations is the result of extensive work on reaching an international consensus at the national and supranational levels between regulatory bodies and organizations within the financial industry.

(It is possible to become acquainted with the extended version of the report at the web-site of the Institute).

All recommendations proposed were catagorized in 5 directions and had a significant effect on the structure of the discussions within the G20:

Direction 1. Strengthening supervision of capital, liquidity and risk management.

Direction 2. Increasing transparency and improving the processes of determining costs.

Direction 3. Changing the role and rules of the application of credit ratings.

Direction 4. Increase the responsiveness of authorities in the event of manifestation of risk.

Direction 5. Effective measures fight the stress in the financial systems.

In October 2008 the FSF presented a report about the motion of the fulfillment of the recommendations presented in April (2008) report[4], and in April 2009 - a survey of measures for the realization of the formulated recommendations within the period from October 2008 to the 2nd of April 2009[5].

The directions outlined in the report of April 2008 by the FSF directed active actions, through concrete definition and optimization, of the recommendations is proposed. Work on a portion of the directions outlined in the April 2008 report led to the development of special reports on appropriate key issues in fighting the crisis. In April 2009, directly to the London Summit, the FSF prepared a number of documents, among which we should emphasize the mandate of the Financial Stability Forum on international collaboration and interaction into an area of crisis-management[6], measures directed to reporting the reduction of factors of cyclicity[7] in the financial system and guidelines to reasonable compensation policies[8]. All three documents reflected greatly in the proposed summit of the G20, which had taken place on April 2, 2009 in London.

The International Organization of Securities Commissions (IOSCO) role would be placed after international organizations and associations in the process of providing solutions for the G20. Being engaged with stringently applied regulation during the problems in the securities market, this organization and its conditions accumulated essential experience on the part of averting and overcoming failures within the financial markets, which were actively used for the preparation of proposed solutions in the G20.

Immediately after the Washington summit, when preparation began for the London Summit, the IOSCO published a special declaration addressed to the participants of the G20[9], in which, it offered its help in working out general solutions directed towards the improvement of regulation in financial markets. The declaration indicates that the IOSCO will lead an active role in a whole series of directions selected as central points of the discussions and has the essential operating times (or expects to have soon) in these areas. A number of such directions have been identified as:

- International financial accounting; the standards of calculation and of corporate governance;
- Strengthening the confidence of investors, including the strengthening of trans-border collaboration in the region of supervision;
- The establishment of global standards for regulators of credit agencies;
- Transparency of markets and financial products.

[3] *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience, Financial Stability Forum, April 2008.*

[4] *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience, Follow-up on Implementation, Financial Stability Forum, 10 October 2008: http://www.fsforum.org/press/pr_081009f.pdf.*

[5] *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience, Update on Implementation, Financial Stability Forum, 2 April 2009.*

[6] *FSF Principles for Cross-border Cooperation on Crisis Management, Financial Stability Forum, April 2009. http://www.fsforum.org/publications/r_0904c.pdf.*

[7] *Report of the Financial Stability Forum on Addressing Procyclicality in the Financial System, Financial Stability Forum, April 2009. http://www.fsforum.org/publications/r_0904a.pdf.*

[8] *FSF Principles for Sound Compensation Practices, Financial Stability Forum, April 2009. http://www.fsforum.org/publications/r_0904b.pdf.*

[9] *IOSCO Open Letter to G20 Meeting, November 2008.*

The IOSCO took part in the development of standards of activities of credit rating agencies and also standards of regulating credit rating agencies and their supervision. Besides the main document in this area prepared by the IOSCO, the Code of Conduct Fundamentals for Credit Rating Agencies[10], were used along with other documents by the IOSCO such as the Report of Committees, in which special attention was paid to the complex question of awarding credit to entities it was rating to financial instruments[11] and other complex financial tools. The IOSCO proposals were also successfully used on international collaboration in the area of supervision of credit rating agencies[12].

The IOSCO time lines were also used in the area of supervision in the activity of hedge funds, specialized funds and specific bank services; the fillings became a meaningful basis of the G20 decisions by the expansion of the area of regulation on financial markets[13]. The IOSCO introduced significant contributions into the understanding of the nature of the crisis after submitting a report about the reasons for the crisis of sub-prime lending, which triggered the world financial crisis[14].

The Bank for International Settlements (BIS), foremost the Committee of Bank Supervision, and partly – the Committee on the Global Financial System, were occupied by separate dilemmas with respect to changes in the regulation of bank capital sufficiency, correct estimation of risk utilizing complex financial tools and prudential supervision of financial organizations, which, as a whole, can be described as separate technical quandaries in the regulation of the banking sector. At the same time, it should be noted that the FSF in its recommendations were awarded a significantly important position for their efforts, and in reality the BIS proved to be included in the process of working out solutions of the G20 as a result of that work it planned for its own behalf.

The Organization for Economic Cooperation and Development (OECD) prepared a working paper titled, *OECD Strategic Response to the Financial and Economic Crisis. Contribution to the Global Effort*[15], which presents an action plan that provides solutions in overcoming the crisis. The nature of the paper contains separate short-term and long-term measures, which is outlined for their own behalf. (The extended version of report can be found on the web-site of the Institute).

The proposals of the OECD are oriented at the construction of a new and stronger world economy. Strategically these proposals cover two large directions: the optimization of finance, competition and control and the restoration of steady long-term growth. Within the framework of the first directive of the OECD, it ensures a viable institutional basis for a constant dialog between different associations, being focused on the tasks in the following spheres: transparency, corporate governance, competition, taxation, pension guarantee, financial formation, the interaction policy of institutional and market structures, the guarantee of sequence and adequacy of reforms. Within the framework of the second direction, the basic contribution of the OECD oversees a prognostic analysis, the presence of a reasonable balance between the intervention of government and markets and the identification of withdrawal routes of governments from active interventions on the market of private capital when the world economy reaches a post-crisis stage.

The OECD considers that it is necessary with relatively short term measures to simultaneously develop universal long-term strategy for growth from the current recession and return to steady growth after short term stabilizing measures. Thus, this organization is oriented, in contrast to other participants in the process in the preparation of solutions of the G20, in a larger extent at the development of measures of economic policy as a whole, than at the problems strictly within the financial sector. However, an analysis of these measures and measures that discuss the nonconformity to new issues of the world economy, these are traditional and largely general prescriptions contained in university textbooks. No fundamental problems to the global economy were noted from our colleagues about the OECD.

Besides, this organization has brought a certain contribution to the development of a future system of regulation for credit rating agencies (*Proposal for a Regulation of the European Parliament and of the Council on Credit Rating Agencies)*[16].

The International Monetary Fund did not deal with the issues of developments of the G20 decisions. Its research into the financial crisis and the proposals of overcoming can be found in the periodical edition, *The IMF*

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[10] *Code of Conduct Fundamentals for Credit Rating Agencies, May 2008.*

[11] *For example, A Review of Implementation of the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies, Report of the Technical Committee of IOSCO, March 2009.*

[12] *International Cooperation in Oversight of Credit Rating Agencies, Report of the Technical Committee of IOSCO, March 2009.*

[13] *Hedge Funds Oversight Consultation Report, March 2009; Report on Private Equity - Final Report, Report of the Technical Committee of IOSCO, June 2008.*

[14] *Report on the Subprime Crisis - Final Report, Report of the Technical Committee of IOSCO, May 2008.*

[15] *OECD Strategic Response to the Financial and Economic Crisis. Contribution to the Global Effort.*

[16] *Proposal for a Regulation of the European Parliament and of the Council on Credit Rating Agencies, Commission of the European Communities, Brussels, 12.11.2008, COM (2008) 704 final, 2008/0217 (COD).*

Global Financial Stability Report, which is published bi-yearly; and also, an analysis of the crisis phenomenon during its development, a number of articles responsible by the IMF in their departmental magazine, *Finance and Development*.

In *the IMF Global Financial Stability Report*, published in April 2009, the IMF points out the immediate steps to realizing plans as set forth by G20 priorities and other long term measures, characterized as, *The Coordination and Strengthening of Macroeconomic Policies*.

The IMF considers the following tasks as immediate measures:

- To estimate the viability of banks and their re-capitalization;
- To work with bad assets systematically, using operating companies and guarantees;
- To supplement the process of bank restructuring by maintenaning sufficient liquidity;
- To make sure that the emerging market countries have tools of protection from the excessive leverage and the risks from the developed countries;
- To coordinate credit policies applied by different countries.

In the long-term plan the following problems are allocated:

- To stimulate fiscal and financial policies and to provide for mutual influence;
- To use special powers of the central banks for the restoration of the credit market and raising funds;
- To construct a platform for a stronger financial system.

The last task, according to the IMF, is reduced to the necessity of reforming the financial sector regulatory system. The IMF sees five main directions in the area of financial regulatory reform:

- To expand the area of regulation at the expense of covering all systematically significant institutions and kinds of activity;
- To prevent excessive leverage and to constrain cyclicity;
- To improve market discipline and to eliminate lack of information;
- To strengthen trans-boundary and trans-functional regulation;
- To improve the liquidity system management.

Associations of professional participants in the financial markets have taken a rather limited part in the decision-making process of the G20. They have only prepared a joint document between six associations at a later stage, where the results of the discussion among the members of these associations relating to projects and recommendations prepared by international organizations and associations, were provided. Their role in this process was obviously subordinate as they did not put forward their own proposals, but only discussed the proposals of other participants within the G20 process.

In the document, which was submitted by the group of the largest associations of professional participants the financial market[17], stated: *We have allocated several concrete measures, offered to the meeting of Ministers of Finance in March, 2009 and the April London Summit about the additions and remarks on behalf of the professional community was spoken. We express our full consent about all other measures*[18]. Among the measures regarding remarks and additions that were spoken, a special position occupying issues in the cooperation of supervisory organs with under-surveillanced organizations, improvements of International Accounting Standards and the perfection of the markets for derivative instruments (the full list of these measures and remarks of professional associations are given in the expanded version of the report on the Institute's web-site).

It is important to notice that some remarks of the professional market participants were taken into account during the preparation of the final version of the many variants of derivative decisions. So, instead of an initially assumed thesis that all credit derivatives should exist only in organized markets, in the final version, the thesis

[17] *This group comprised of the London Investment Banking Association (LIBA), the Securities Industry and Financial Markets Association (SIFMA), International Capital Market Association (ICMA), International Swaps ans Derivatives Association (ISDA), the Futures and Options Association (FOA), Investment Industry Association of Canada (IIAC).*

[18] *Briefing for the London Summit by Securities and Derivatives Industry Representatives. LIBA, SIFMA, ICMA, ISDA, FOA, IIAC. February 17, 2009.*

about the necessity to create central clearing houses in the financial market in this segment and the organization of trade with the help of a central counterpart, were included[19].

Besides, the groups of professional participants in the financial market have offered their own version of a list of primary goals for the restoration of financial stability:

1. Restoration of durability of the financial system and system-important institutions.
2. Restoration of a functioning market without state support, as soon as possible.
3. Expansion by means of communication (communication media) and infrastructure for timely interaction of regulators and policy-makers on a global scale.
4. Achievement of consistency in the results of these tasks provided for different countries.
5. Early detection of problems in the financial market, combined with the flexibility to adapt their decisions to new tendencies on the market.
6. Confidence in the fact that regulators play a *fair game* and have enough resources for supervision over difficult products and markets.

The World Bank has played a significantly minor role in the development of measures of overcoming the crisis, at best, just creating visibility of carrying out this task. So, on the Russian language Web-site of the World Bank in the rubric *Financial Crisis; What the World Bank Will Do,* a document named *On the Threshold of Annual Meetings Group of Organizations of the World Bank* has almost completed the preparation of the report on the problems of development and climate change, is listed. This is an obvious example to present to the general public *a model* instead of any real result. Perhaps, the only one real step in the direction of solving contradictions is the decision to give Africa an additional place on the Board of Directors of the World Bank Group, in order *to strengthen* the influence of developing countries within its organization[20].

Thereby, it is possible to rank the international financial organizations and associations on the basis of their contribution to the development of the G20 decisions, taking into account the intensity and efficiency of this contribution. In our opinion, the rating of intensity and efficiency of the participation of international financial organizations in the development of G20 decisions should look as follows:

1. The Financial Stability Forum (FSF).
2. The International Organization of Securities Commissions (IOSCO).
3. The Bank of International Settlements (BIS).
4. The Organization of Economic cooperation and development (OECD).
5. The International Monetary Fund (IMF).
6. Group of Associations of professional participants of the financial markets (LIBA, SIFMA, ICMA, ISDA, FOA, IIAC).
7. The World Bank (WB).

As can be seen from the given rating, the most useful institutions proved to be those that professionally dealt with concrete problems of regulation and financial markets. Considerably less effective proved to be the world institutions of development that possess sufficiently extensive financial resources, but which carried out a surface and simplified analysis of the proceeding processes, on the basis of which, proved to be impossible to formulate any useful applicable recommendations regarding overcoming the crisis causes.

As a consequence of this situation, it became to a various degree, successful in solving some of the problems of the financial market within the world community, many of which had a technical flavor, and in overcoming the deeper fundamental reasons of the global financial and economic crisis. The success at the first stage had been provided by the presence of professional judgments of those international institutions and associations which, actually, deal with applied problems of the financial market. Absence of any distinct proposals of overcoming the fundamentally complicated causes of the crisis is connected with an extremely low efficiency of analytical and prognostic work on the part of international financial organizations. The world was deprived of knowledge of the fundamental reasons of the crisis, and according to that, the leaders of the major countries didn't have any solid tools in how to overcome the crisis at their disposal.

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[19] *Professional market participants associations provided the following counter-evidence: "We support the initiatives aimed at strengthening the CDS market transparency and reliability, however we believe that additional measures required for the protection of the market competition".*

[20] *World Bank Governors Approve Governance Reforms, Adding Board Seat for Africa. Press Release No:2009/220/EXC.*

Discussion Agenda

In general, several directions in the development of the decisions at the London Summit can be allocated to:

- The causes of the crisis;
- The role of international financial organizations;
- Sufficiency of capital for financial organizations, the size of financial leverage;
- A risk-management and prudential supervision system;
- Credit rating agencies;
- International interaction of national regulators and international financial organizations;
- Counteraction of pro-cyclicity and compensation policy;
- Transparency of the financial markets;
- Susceptibility of systems of regulation to financial innovations;
- Problems with off-exchange derivative tools.

The current report will not describe the discussions in all conceived areas in detail. At the same time, from the point of view of the aims and tasks of the present report, these discussions have a special value in a number of areas. This is why the description of discussions in the area of the *role of international financial organizations, international interaction of national regulators and international financial organizations* and *credit rating agencies* will be given in the corresponding parts of this report in more detail (the chapters 3 and 7).

The course of results of the latest discussion presented by us, are slightly different from the directions which had been planned at the Washington summit of the G20 leaders. At the G20 leaders summit which took place in Washington in November, 2008, the plan of actions regarding the reformation of the financial system was accepted and the order of taking action on the achievement of its aims, was coordinated, and the formulation of recommendations in the following areas was submitted to the Ministers of Finance of all G20 countries[21]:

- Revision and coordination of global standards of accounting, especially concerning complicated securities during stress periods;
- Increase in stability and transparency of the credit derivatives markets and the reduction of system risks connected with them, even at the expense of improvement of infrastructure of off-board markets;
- Revision of the practice of rewarding top managers in connection with the stimulus acceptance associated with risk and innovation;
- Revision of mandates, control system and resource requirements concerning international financial organisations;
- Defining the responsibilities of backbone organisations and the system of regulation or supervision under them.

So, the discussion of problems of modernization of the global financial order has taken a little different direction than it was planned in November, 2008. Certainly, it is connected with the fact that the international organizations, which dealt with the real problems of the global capital markets and who have many proposals of how to modernize the global financial regulation, were fully included in the discussion only after November, 2008.

The crisis reasons named by different participants of the discussion were slightly different from each other but there was uniform understanding of the main causes of the crisis, at least, about the causes of the financial crisis. The consensus on the reasons of the financial crisis was fixed in the report of the Working Group 1 (the list of the reasons of the crisis, according to the Working Group 1 and to The de Larosiere report is given in the expanded version of the present report on the web-site of the Institute).

However, as far as the more fundamental reasons for the financial and economic crisis are concerned, the nearest of them all were touched on by the writers of The de Larosiere report; however, in the editorial section of this report no profound reasons for the crisis connected with global cultural contradictions in the modern world are to be found.

[21] *Declaration of the Summit on Financial Markets and the World Economy. Washington, November 15, 2008. http://georgewbush-whitehouse.archives.gov/news/releases/2008/11/20081115-1.html.*

It is necessary to pay attention to those factors, among the crisis causes, which created a false (from the point of view of global expediency) stimulus of development of financial and not-financial organizations. The system of managers and the largest economic agents of stimulation, which has been functioning in its final variant for the latest decade, have been contributing to the strengthening of imbalance.

So, the existing system of enumerating top management from the real sector contributes to strengthen the severity of the crisis. When top management aimed at maximizing capital growth with annual payments of proportionate compensation, the propensity of the companies to raise funds, to increase output regardless of efficiency, to initiate corporate takeovers, especially of small companies and to other actions, which contribute to the increase in the level of a company's capitalization, without an adequate analysis of efficiency of the taken actions, especially in the long-term (with a one year or longer time line) aspect, has accelerated the process.

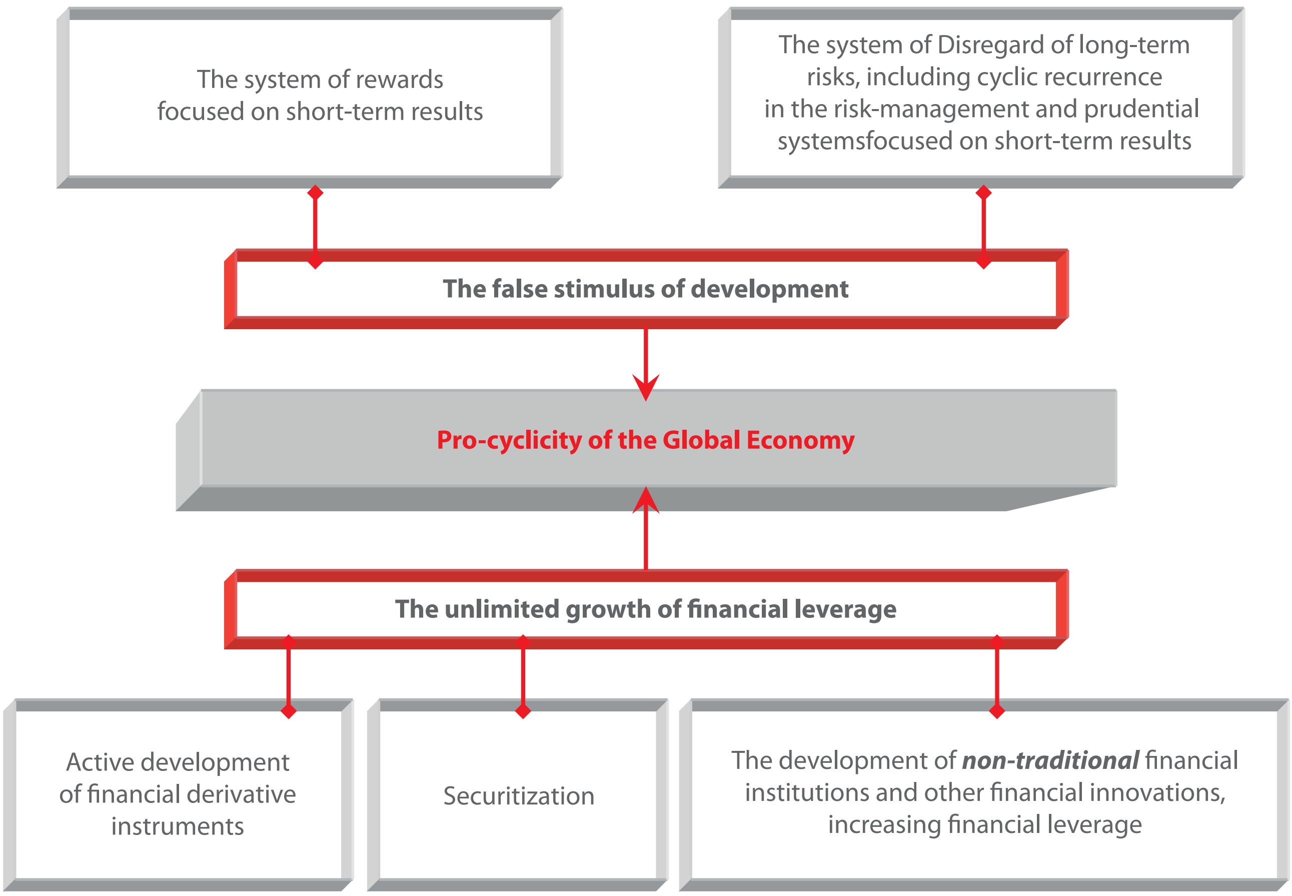
Thereby, such a system of stimulation becomes pro-cyclic, it means that it promotes not the smoothing fluctuations of economic dynamics within a business cycle, on the contrary, it contributes to strengthening the fluctuations of economic activity. At the final stage of economic growth this system forces managers to raise funds especially aggressively to increase output, ignoring accruing risks of depression and recession.

This works in much the same way as system compulsory supervision based on criterion of sufficient working capital. During periods of economic growth these criterion make financial organizations increase capital by all means, herewith the existing technique of estimating risk (in particular, the Value at Risk – VaR approach) adequately estimates only very short-term risk and ignores long-term risk (including the risk of a possible recession).

Additional strength to this system is given by the active development of derivative markets, which leads to maximization of open positions (buy positions) during periods of maximum risk in an economic slowdown, and correspondingly, decreasing the value of assets coming out as a basic with relation to derivative instruments. With the exception of a sharp growth in open positions for derivative instruments, other parameters at the final stage of economic growth are showing the same tendency, which results in the increase of financial leverage in financial organizations.

The unlimited increase in financial leverage turned out to be one of the major factors of instability of the global financial system. The numerous financial innovations, which have created new instruments that allowed

Figure 2



to increase leverage without breaking operating regulation standards, and modernizing existing instruments and technologies (including securitization), contributed to the increase in a gap between obligations and capital at the macro level and have come in contradiction with existing systems of risk-management and regulation. Some non-traditional financial institutions (hedges-funds, private banking service institutes, parallel banking systems etc.), which have sharply increased their number of operations and services but largely remained out of the sphere of regulation and transparency can also be included as financial innovations.

As a result we see that the prevailing direction of discussions within the framework of the G20, in the first place, are tightly interconnected, and in the second place, in the final analysis, concern the effect of the financial system on the economic system as a whole. Therefore, despite the fact that within the framework of the discussions of the G20, the problems of the real economy actively were not examined, these discussions are objectively aimed not only at the consensus of the problems of the financial system, but also at averting the negative action of the financial system in the real sector of the global economy.

Self cyclicity factors played an important part in growth and strengthening of the global financial crisis in 2007 and 2008. Mutually strengthening these factors led to growth and amplitude of fluctuations in business cycles increasing financial instability.

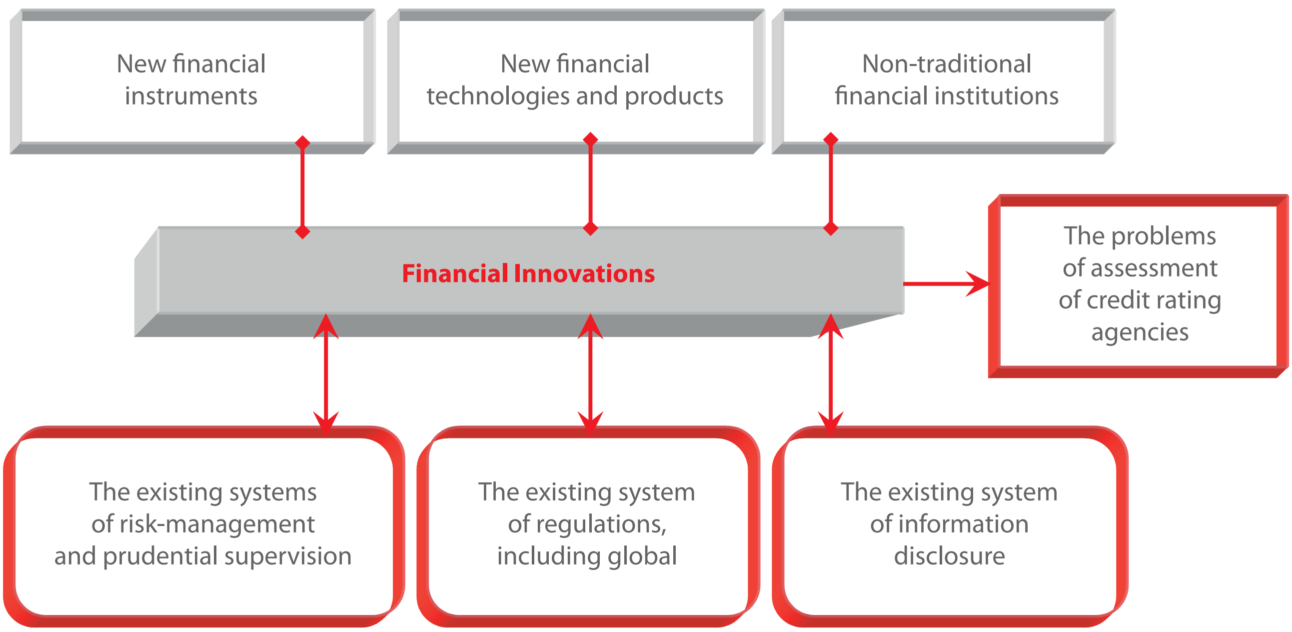
Two interrelated models are offered to be the main problems, which became the reasons of a severe crisis of the financial and economic system that were in the forum of discussions at the G20.

These models are built on two key assumptions: self cyclicity and financial innovations.

The depth of the current global economic crisis has been largely caused by the fact that many factors have sharply increased pro-cyclicity in the global economy in the latest decade. That is why pro-cyclicity is put at the centre of the first of the two given models (see the Figure 2).

In the second of the two given financial innovation models, which are in contradiction with existing systems of risk-management and prudential supervision; regulations; information disclosure, are placed in the centre (see the Figure 3). The problems of the inadequacy of estimation of credit rating agencies were a consequence of failures in the system of information disclosure that turned out to be unable to provide the due level of instrument, institution and technology transparency, all of them being financial innovations.

Figure 3



Two groups of the main decisions made by the G20 are worth further, more detailed consideration in this report:

- Regulation of credit rating agencies;
- Role and the place of supranational institutions in the post-crisis world.

The results of the analysis of the role and place of supranational bodies in the post-crisis world will be presented in Chapter 7 of the present report. The questions of regulation of credit rating agencies will be analyzed in Chapter 3 of this report.

CHAPTER 3. ANALYSIS OF THE INSTITUTE: THE CREDIT RATING AGENCIES IN THE POST-CRISIS WORLD

The main solutions of the London Summit concerrning the credit rating agencies are fixed in the Statement of strengthening of the financial system, where they are put in a separate paragraph:

- The credit rating agencies should be included in the system of regulation and control, which should be established concerning credit rating agencies by the end of 2009, and which should be following the main terms of the IOSCO code;
- National organs will demand the alteration of practice and procedures of this or that rating-agency for the settlement of conflicts of interest and for maintenance of transparancy and high quality of the definition process of rating indicators;
- The Basel committee should continue to research the role of external ratings in prudential regulation and define whether there are any negative stimulus that must be removed.

Thereby all three sore points of credit rating agency activity have been mentioned. The first measure aims at imposing a system of regulation for credit rating agencies, developed by the IOSCO. The second is to eliminate conflicts of interests of credit rating agencies and increasing the transparency of their activities. The third measure aims at creating stimulation through the ratings usage system.

The system of regulation of credit rating agencies has been actively developed by the IOSCO since 2003. In September, 2003 the IOSCO developed and published the Code of Conduct Fundamentals for Credit Ratings Agencies[22]. This publication contained the general aims of the organization; standards and approaches by which credit rating-agencies operate, organs of supervision and participants of the market, estimation of activities of rating agencies for the protection of investor's interests, maintenance of efficiency and transparency of the securities market and reduction in system risks were the guiding principles of the document.

The subsequent research has shown that, on the one hand, investors increasingly began to rely on the issue of solvency published by rating agencies, but at the same time the activities of rating agencies were largely transparent for both publishers and investors. Taking into account a low level of regulation concerning the rating agencies in a majority of countries, IOSCO, after carrying out numerous consultations with rating agencies, participants in the market and international organizations, which are working on the regulatory standards (BCBS, IAIS), has developed an IOSCO code on the basis of professional activities of credit rating agencies (further - IOSCO code)[23].

The IOSCO code was first published in 2004. However, the events connected with the global financial crisis, the role of credit rating agencies during the growth of the crisis, and problems connected with assignment of ratings to structured financial products, have defined necessity of substantial refinement of the IOSCO code. The updated version of the OISCO code published in May, 2008 became the result of such work[24].

According to this, credit rating agencies must accept and publish professional codes of ethics and securely bind to the positions presented in them. Such codes must contain at least these positions[25]:

1. Quality and objectivity in the ratings assignment process
   - Maintenance of quality in the rating assignment process;
   - Monitoring and updating of ratings;
   - Maintenance of objectivity in the ratings assignment process;
2. Independence and prevention of conflict of interests
   - General positions;
   - Organizational procedures;

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[22] *IOSCO Statement of Principles Regarding the Activities of Credit Rating Agencies, A Statement of the Technical Committee of the International Organization of Securities Commissions, September 2003.*

[23] *Code of Conduct Fundamentals for Credit Rating Agencies, The Technical Committee of the International Organization of Securities Commissions, December 2004.*

[24] *Code of Conduct Fundamentals for Credit Rating Agencies, The Technical Committee of the International Organization of Securities Commissions, Revised May 2008.*

[25] *The complete enumeration of information, which must be contained in the codes of the professional activity (ethics) of the credit rating agencies, is given in the extended version of report on the site of institute.*

- Independence of analysts and employees of credit rating agencies;

3. Responsibilities of credit rating agencies concerning investors and publishers
   - Disclosure of information about credit ratings and their representation;
   - Reference to confidential information;
4. Disclosure of information about the professional activity credit rating agencies and interaction with the market participants.

The decision of involving rating agencies in the regulation area at a global level was accepted by taking into account of positive experiences in countries where such regulation exists. So, in the US, the regime of regulation of rating agencies has been used for several years, however, the events connected with global financial crisis have shown deficient in such regulation and the necessity of it being updating. In some countries the fundamentals of regulatory activities of credit rating agencies exist[26].

At the EU member level, regulation of rating agencies was practically non-existent up until April, 2009. After careful study of this issue, a project of a regulating document was established and prepared for credit rating agencies[27] attempting to establish a general approach in regulating rating agencies in all EU member countries. It is believed that it will provide a quality level of ratings and provide investor protection. The principles of oversight fulfillment on rating agency activities and prevention of conflicts of interests during the activity process are contained in this document.

Absence of regulation with regards to rating agencies at the level of the National Legislature of EU members provides the possibility of immediate acceptance of the EU Regulating document, which unlike EU instructions, does not demand a transposition in national legislation of corresponding EU members and will take effect in all EU countries directly from the moment of acceptance. On April, 23rd, 2009 the European Parliament and Council approved the Regulating document project regarding credit rating agencies presented by the European Commission[28].

With the adoption of this document in the European Union, a general regime is introduced in the regulation of the release of credit ratings and their activities, directed toward the restoration of confidence in the market and an increase in the protection of investors. In accordance with the introduced regime, the rating agencies, whose ratings are used for regulatory purposes, will be subject to registration by the CESR and through interaction between the organs of supervision and regulation of the corresponding member nations of the European Union. In the process of accomplishing oversight activities associated with rating agencies, the joint organs of oversight will also participate. The registered credit rating agencies, which meet the requirements of the EU, must comply with the rigid rules as set forth by the EU and other organs, which are directed toward guaranteeing that:

- The ratings, appropriated by rating agencies were not subjected to the influence of conflict of interests;
- Rating agencies support the highest quality in methodology in perpetuity when awarding the rating;
- The activities of rating agencies are always transparent and intelligible to investors.

For the control of correspondence of rating agencies to their audience, oversight will be established from the side of corresponding and competent authorities. The introduced regime of regulation of rating agencies is also provided for credit rating agencies:

- Prohibition of the rendering of consultation services;
- Prohibition of the composition of rating with respect to financial tools, according to which there is no sufficient information;
- Requirement on the disclosure of information about the utilized models, the methodologies and key assumptions used for the preparation of the rating;
- Requirement in the isolation of complex financial tools and aid in the addition of special symbols;

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[26] *Thus, in the Republic of Kazakhstan these questions are regulated by the decision №163 of the Agency on Financial Market and Financial Organizations Regulation and Supervision of the Republic of Kazakhstan, dated as October 29, 2008.*

[27] *Proposal for a Regulation of the European Parliament and of the Council on Credit Rating Agencies, Commission of the European Communities, Brussels, 12.11.2008, COM(2008) 704 final, 2008/0217 (COD).*

[28] *Approval of new Regulation will raise standards for the issuance of credit ratings used in the Community. Brussels, 23 April 2009, IP/09/629. http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/629&format=HTML&aged=0&language=EN&guiLanguage=en.*

- Requirement of the publication to submit an annual report regarding transparency;
- Requirement on the establishment of a system of quality controls in the preparation of its rating;
- A minimum of two independent directors on the board of directors (one of which must be competent in questions of securitization and structured financial tools), whose reward does not depend on the financial results of activities of the rating agency, a period of authority cannot exceed 5 years.

The clauses of the regulated document are based on principles formulated in the IOSCO code on the bases of the professional activity of agencies of credit in their ratings as required solutions of the London Summit.

The clauses of the regulating document will act with respect to credit ratings, adopted by banks, investment companies, insurance companies, collective investments schemes, by pension funds for regulation and other purposes, and which are revealed publicly or are distributed by subscription. Regulation does not apply to credit ratings established by different organizations for its own purposes that are not revealed publicly and not paid from the side of the rating organization.

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Thus, in this part of our report we have analyzed the main decisions of the G20 London Summit and showed the sources of those decisions that were accepted, and the reaction to those solutions of our expert community.

The decisions of the London Summit provided important food for thought in the analysis of the unfolding mechanisms of decision making. One of the important directions of the reformation of the world financial architecture becomes the creation of a supranational level of regulation and oversight and, correspondingly, supranational institutions, to which peaceful and sovereign states will delegate a part of their authority on matters to deal with solutions in the region of a global financial order in the post-crisis world. Based on the example of the stage of the G20 process, which was completed at the London Summit, it is possible to see new formats of decision making, and the influence of individual countries and groups of countries in the global processes of discussions and problem solving.

All of these questions became an object of experiment in the second part of our report.

CONCLUSIONS AND PROPOSITIONS

Today, because of the summits in Washington (2008) and London (2009), the G20 soundly pretends to play the role of the global platform for coordinating anti-crisis actions and reforming the world of finance. On the wave of disappointment in previous international institutions, the initiative to become a center of making world decisions passes to the G20. The process of the G20 is perceived by our expert association as global: it has riveted the attention of the West, the developing world, and large and small states.

The G20 creates expectations of a non-conflict process of resolution to the chief problems challenging the world economy. However, experts see the serious limitations of the measures of the G20, if these limitations are not overcome; further global dialog of the countries will be hindered. In this case the search for other measures will be left behind and initiatives will pass to regional areas.

Plusses of the G20 process:

- **The radical expansion of size in comparison with the G8, the IMF and the UN Security Council.** The G20, to a much larger degree, represents the interests of the developing countries, whose weight in the world economy has swiftly increases in the 21st century.
- **The united G20 resources make it possible to resolve global problems.** In a number of the countries of the G20, it represents 85% of the global GDP, 80% of world trade (including trade inside the European Union) and 90% of the world's capitalization (including all EU countries). In the countries of the G20 live two thirds of the entire terrestrial population.
- **Extended expert experience.** For the preparation of proposals a wider expert pool is assigned, the solutions are based not only on the experience of the West, but also of developing countries.
- **Increase in confidence.** The readiness to search for a consensus, in spite of contradiction, is possible insurance from a disruption by conflict and disorganization of the world economy;
- **Directivity for practical solutions.** In contrast to other debatable areas, the work of the G20 is aimed at finding practical solutions and their further application.

Limitations of the G20 process:

- **In the summits in Washington and London the initiative belonged to the USA and the European Union.** The proposals from China, Russia, Brazil and India proved to be in the shadows. There was an absence of platform unification amongst the developing world.
- **Involvement in the work of the G20 were a whole series of rapidly developing countries**, which had their own proposals on the financial architecture of post-crisis peace.
- **The absence of organizational mechanisms within the G20 that would guarantee practical implementation of solutions.** The solutions are addressed to old institutions, such as the IMF, which showed its ineffectiveness in the course of the world crisis.
- **Until now, the G20 rests on the analysis of tactical reasons for the world crisis.** Fundamental reasons did not enter into the agenda. The absence of a strategic analysis of crisis deprives the possibility to construct a general ideological platform in the future.

Thus, the G20 is unique in its resources, the activities of the G20 arrises large expectations within the expert community and also of developed and developing countries. However, thus far the ideology of the G20 does not exceed the scope of solutions to current problems of the crisis. The agenda of the G20 thus far did not enter into any radical and innovative issues in the reform of the world of finance.

PROPOSALS TO RAISE THE G20 EFFICIENCY

Innovative agenda of the G20:

- The fairness of the financial architecture, the main imbalances of the world economy and how to overcome them.
- Reform of the world currency system.
- Conditions of the reorientation of global investment flows in accordance to global public interests.
- Financial literacy of populations as a fundamental factor in the stability of the global finance.
- The expansion of the scope of work within the G20, as many of the observer states provided the most interesting proposals for the summit.
- The production of a common platform for developing countries within the G20.

PART II

NEW FINANCIAL ARCHITECTURE: THE MECHANISMS OF INFLUENCING THE DECISION-MAKING PROCESS

CHAPTER 4. THE ROLE OF GLOBAL SUPRANATIONAL INSTITUTIONS: EXPERT OPINIONS

It is logical to begin with the mechanisms and instruments of influence on the existing situation in the financial and economic area in consideration of the role of different world institutions and currently taking different approaches in overcoming the crisis.

In this case, an expert understanding of efficiency of various supranational organizations, from the *club countries* to professional financial institutions, in the development of approaches contributing to overcoming the crisis and the creation of a new global financial architecture, is quite interesting.

Efficiency of International Institutions

During our research we have asked the experts about their opinion on international institutions and their platforms from the point of view of efficiency in the development of new ideas and the approaches contributing to overcoming the crisis and creation of a new global financial architecture on a five-point scale (from 1 to 5. With 5 as the best one.)

International Associations and Platforms

As we can see in the Diagram 4, the expert community assessement of the possibilities to overcome the crisis and to develope new approaches to the global financial architecture within the limits of these platforms is below the average.

Between the best average estimation, which was awarded to the EU, and the worst, to the United Nations, the difference is less than a single point.

So the EU, the G20 and the G8 slightly win because one third of the experts rate them at 4 or 5 (the Diagram 5). As it is easy to guess, the experts from *the old* industrial countries of Europe and the USA have highly appreciated the contribution of these institutions.

Diagram 4

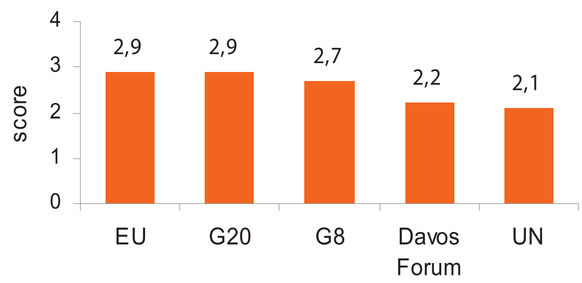
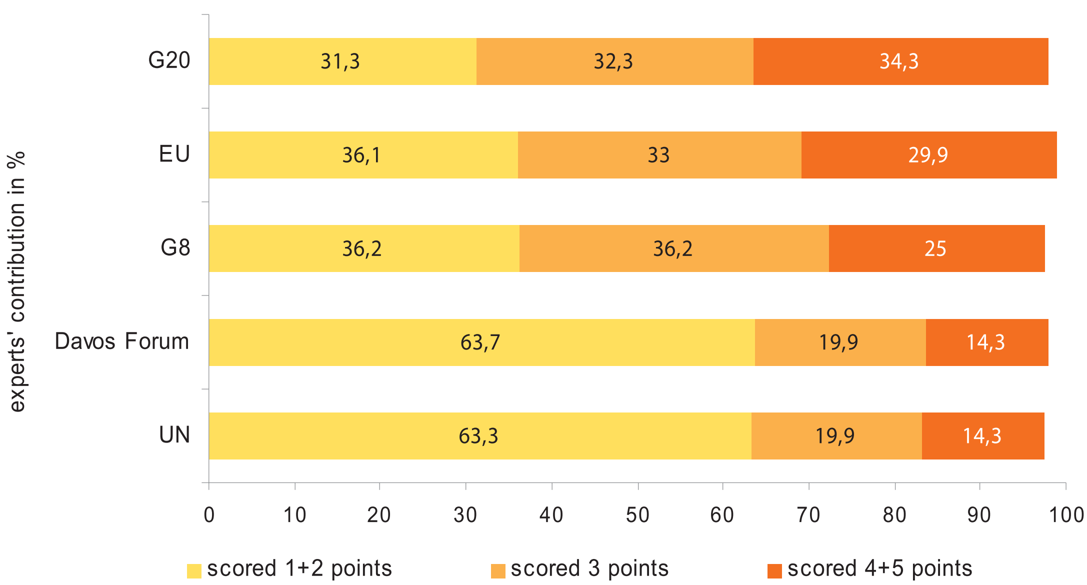


Diagram 5



International Financial Institutions

Similar tendencies can be noticed in the estimation of the possible contribution of the world financial institutions to overcoming the crisis and creation of a future financial world order. In general, these estimations are average, or below the average (Diagram 6).

The IMF turned out to be a relative *winner*. About 40% of all experts gave this institution the highest marks (Diagram 7).

The roles of the World Bank and the Financial Stability Forum (recently renamed the Financial Stability Board) are the least clear to the expert community. But the difference between it and the IMF is again insignificant – less, than a point.

Some experts commented about an increase in the role of Middle-Eastern and Asian financial institutions and their instruments (financial instruments of the Peoples Bank of China, the Islamic Conference Mutual Aid instruments) or about the possible occurrence of supranational banks from Latin America within the ALBA, which, may start to influence the global situation in the near future.

Diagram 6

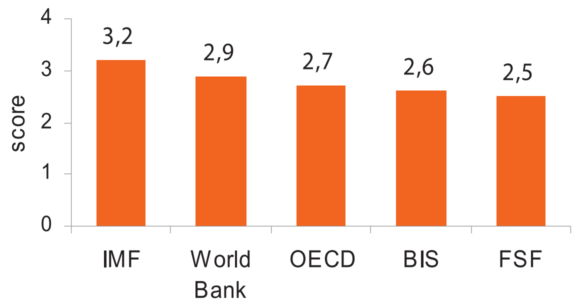
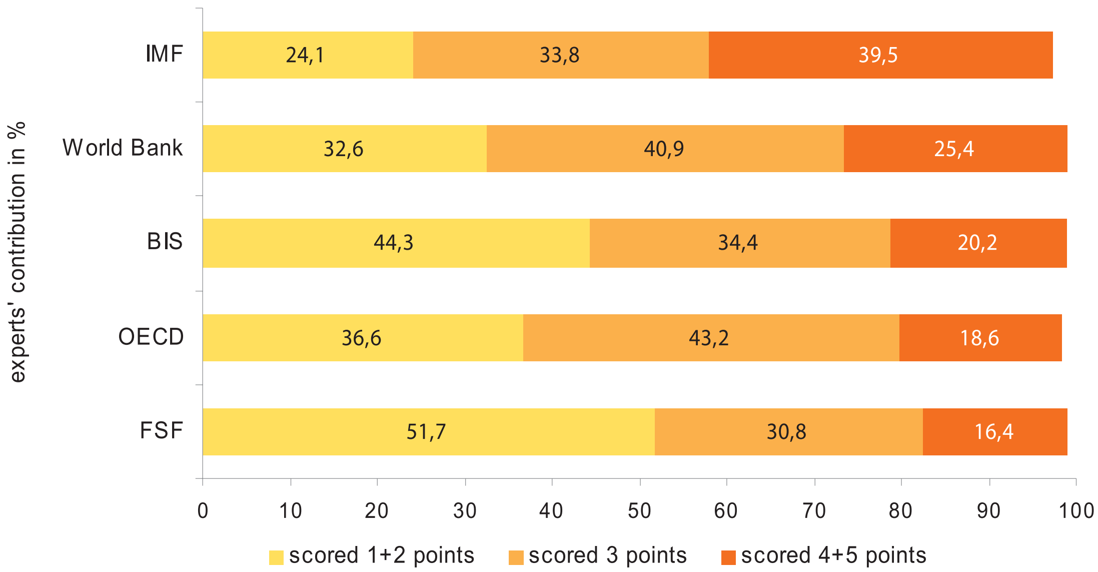


Diagram 7



Prospects of the IMF

As part of our research, we also questioned experts **whether the IMF can effectively dispose of the additional funds in amount of about 750 billion US dollars, which were provided to it by the G20 Summit.**

The distribution of answers to this question clearly demonstrates the ambiguity of attitude of the expert community to this organisation (Diagram 8A). As it is shown in the Diagram 8B the polar tendencies in opinions of representatives from the developed and developing countries are shown here again. The experts from developing countries, especially from Russia, are more prone to doubt in the efficiency of the IMF actions.

The participants of the survey, who expressed confidence or at least hope that the IMF will manage to place the given money effectively (and this is nearly a half of those questioned), seriously mark its future role in support of anti-recessionary programs and stability of developing economies. The experience of this organization and absence of other alternatives are *for* the IMF.

Roland Nash, UK, Chief, Analytical Department Renaissance Capital: *"in terms of the crisis this is the best we have…"*

Diagram 8A

all experts

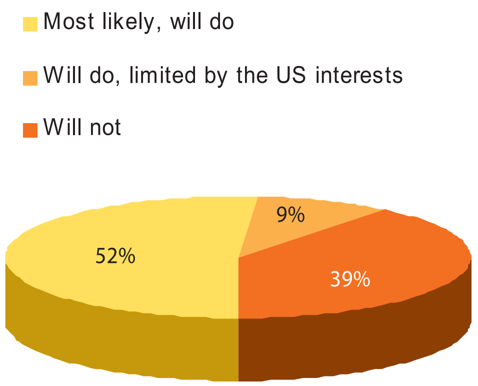
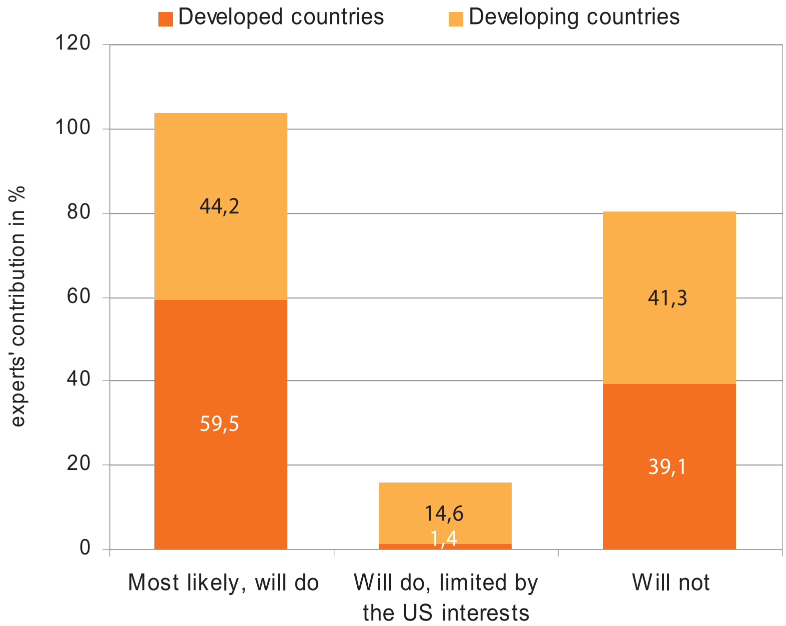


Diagram 8B



Other conditional *supporters* of the IMF, opinionate the IMF's ability to maintain a balance of interests between developed and developing countries remain quite critical of its measures but assume that the efficiency of this organization will now increase, especially because of the expansion in structure of participants with the new members of the G20.

Manuel Agosin, Chile, Professor of Economics, Department of Economics, University of Chile: *"This is only a short-term solution because the real solution is to reform the quota system, and that they haven't done yet. But they have brought forward to 2011 the quota review, which is a big step forward, and I think that the next review of quotas should allow major redistributions. It should be noted that the IMF itself will be growing enormously. With the review of quotas, the additional resources will have to become normal IMF resources. The quotas of emerging countries, including Russia, will have to grow relative to the total, and those of the old European powers will have to shrink, in relative terms. In nominal terms, of course, they will grow, because the resources of the Fund are being tripled."*

Therefore, every tenth participant of the survey is sure that the IMF will continue to act only in the interests of the USA. There are many representatives of Russia who have expressed this opinion.

The sharp negative opinions about the IMF (which are given by almost 40% of the questioned experts) appeal, first of all, to the *bad reputation* of the fund. Participants of the survey repeatedly pointed out the polarization of this organization and doubt in the IMF's ability in carrying out effective credit policy, whatsoever.

Ivan Ureta-Vaquero, Switzerland, Senior Researcher and Project Manager, University of Lugano, University of Cambridge: *"Historically speaking, institutions such as the IMF or the World Bank cannot effectively manage economic or financial resources concerning, first of all, developing economies. And given that the world's wealth distribution is highly inefficient and unequal (80/20), developing countries will remain being the most affected realms."*

Summarizing the aforesaid, it is possible to assert that the expert community is not ready to entrust a universal allocation of mandates by the existing global supranational institutes as *architects of the new world* to any of these organizations.

Sylvain Raynes, USA, Founding Principal of the R&R Consulting: *"All these organizations are managed by bureaucrats and not leaders. They have influence and large resources, but have no will power. They all are frightened and are afraid to act, because any mistake can be fatal. At the moment, all these institutions are paralyzed. It is not clear today which institution will assume a leadership role in the post-crisis development phase, but it is obvious that it will be none of the listed international institutions. Leaders always come from an unexpected side."*

And first of all the most attention is attracted by the low positions in *efficiency rating* of the FSF and the United Nations.

Results of the profound analysis of the official documents concerning the G20 process, which are given in the Chapter 2 of the current paper, clearly demonstrate the leading role of those institutions that professionally deal with concrete problems of regulation in the financial markets. The Financial Stability Forum is again located at the forefront. It is possible to assume, that the role of the FSF in global regulation of the financial markets was not really significant until recent events, thus not attaining a meaningful reputation: some watch and wait for results, others not being able to imagine its full potential concerning new decisions. We will hope that the new Financial Stability Board will take a rightful place in the system of *co-ordinates* among our experts.

But the low position of the old merited UN seems for us to be a sign for a sad tendency for loosing its influence as supranational actor.

The absence of expectations of *breakthrough* decisions from the World Economic Forum is quite clear. Davos is perceived, more likely, as a political platform where the development of economic policy, not financial architecture is possible. Nevertheless, as the experience the latest Davos forum has shown, the democratic style of this platform provides good opportunities for putting forward different global ideas for further discussion at higher *official* levels.

It is significant, that both of the *Club Countries* formats (the G20 and the G8) are, as a matter of fact, slightly ahead of the Davos from a point of view of development of new ideas and approaches contributing to overcoming the crisis and to the creation of a new global financial architecture. Their *rating positions* to this question are marginal, in spite of the recognition of the importance of expansion the format of the international decision-making process by the expert community, that was mentioned in the chapter 1. And here, the following question appears: What were the reasons of such ambivalent cumulative opinions of the roles of these supranational institutions, was it the disappointment of a significant part of the expert community with the results of the recent G20 Summit in London or was it the real disbelief in this *expanded format* and conviction that in the end, everything will be settled by the *good old G7* which is dominated by the USA interests?

By the way, the polar tendencies of opinions within the expert community concerning the ability of the IMF to effectively utilize the resources provided by the G20 Summit can testify in favor of the previous assumption. As we have seen, a considerable part of the experts are critical in their opinions of the IMF's ability to observe a balance of interests between developed and developing countries and fears that appropriate expansion relating to the membership structure in the interests of new members of the G20 will not be conceived. Therefore, here the theme of *double standards* in the US policy has been raised again, and again the question is being considered as *a fairness* paradigm.

And the last comment from our side in this section. As far as the disillusionment in the existing order and the methods of global problems resolution starts to dominate over the hope, a powerful vector of *New Heroes* expectations appears: new formats of alliances between countries, new approaches to the distribution of global wealth, new principles of regulation and new leaders.

CHAPTER 5. THE EXPERT ASSESSMENT OF THE DESCISION MAKING FORMATS

Investigating the probability of development and advancement of new *breakthrough* initiatives in the area of the global financial architecture, we would like to describe in detail two concrete points.

Firstly, what, in the opinion of the expert community, are the advantages and restrictions of the G20 format. Whether the expanded format of the decision-making process with a wider range of countries can be considered as more effective and productive?

Secondly, what possible alternative methods of development pertaining to the perspective decisions and consensual achievements along with their fruition do we have?

G20 or the Forum of Nations

Continuing the development of breakthrough solutions in the existing institutions, we asked our experts whether the development of required solutions is possible within the G20 format or will they be developed and accepted within another format?

The answer to this question has divided the expert community into almost three equal parts (Diagram 9A). Among the representatives of the developed countries *supporters* of this exact format considering production in breakthrough decisions have dominated (Diagram 9B). The experts from developing countries were more prone to reject the effectiveness of the G20 format, considering the same question. In both camps about one third of the experts considered the possibility of developing similar decisions in other formats.

Diagram 9A

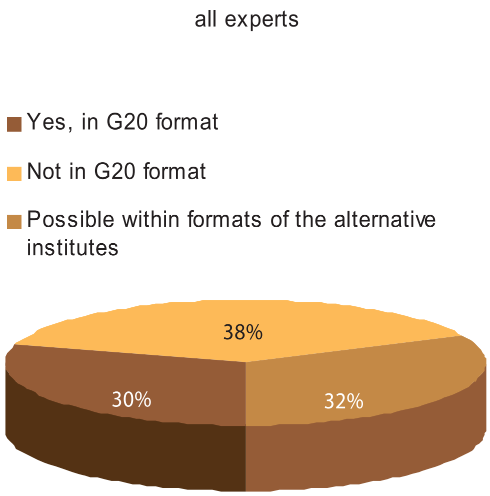
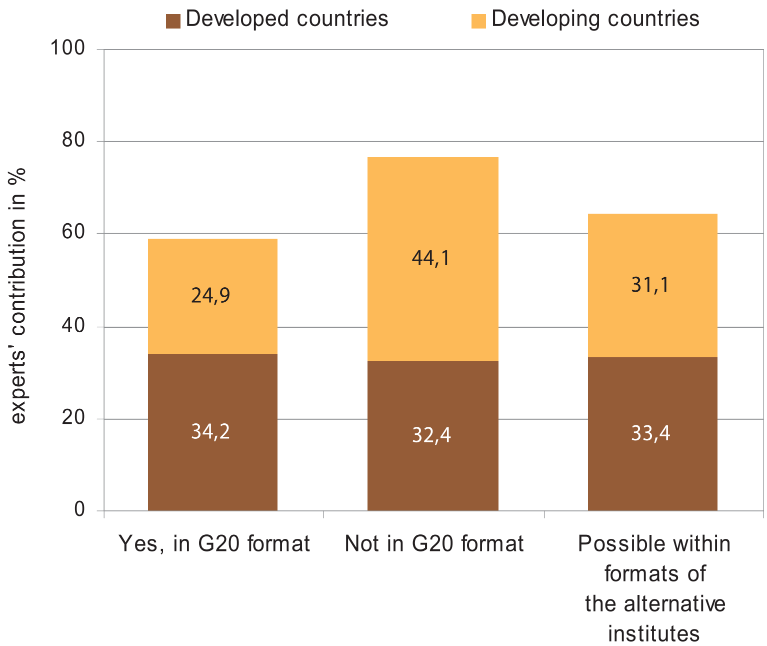


Diagram 9B



Herewith, each of the three groups of experts; the conditional supporters of the G20, its *opponents* and *adherents of other formats* of the development of breakthrough decisions in the global economy, can be divided into two subgroups. We have noticed six main trends in expert positions regarding this question.

1. The G20 is an optimum format for the development and promotion of breakthrough decisions in the global economy as it unites all leading countries, including representatives of the developing world.

> **Mikka D. Pineda, USA, Lead Analyst for Markets, Monetary Policy and Asia, RoubinI Global Economics LLC:** *"Yes, it's possible for breakthrough decisions to occur within the G20 format because the G20 brings countries holding the biggest current account surpluses together with countries holding the biggest current account deficits."*

2. The G20 format can become quite effective if some conditions are concerned: efforts of cooperation with other associations, including regional; readiness of leaders to a more radical and more constructive position, etc.

Valery Geets, Ukraine, Director, Institute of Economics, National Academy of Sciences of Ukraine: *"Probably, if participants are guided by fundamental values, instead of selfish short-term interests. It not only excludes, but assumes active negotiations in other formats."*

3. The G20 format is essentially unsuitable for the development of breakthrough decisions: it still reflects a unipolar world model; *the old elites* are not ready to reconsider the current system of domination of financial interests and to remove system failures; the interests of the country's participants are too different and the requirements of poor countries are not considered.

Sara Hsu, USA, Founder and the Editor, www.economicsofcrisis.com: *"The G20 format appears to highlight the interests of those who want to uphold the status quo, which does not effectively address systemic flaws, particularly that of the dominance of financial interests and distress and disenfranchisement of poor, vulnerable groups."*

4. The G20 format is inexpedient: it is easier to reach a consensus with the small number of members, that's why the G8 format or bI or tripartite arrangements are more efficient.

Marshal Goldman, USA, Associate Director, Davis Center for Russian and Eurasian Studies, Harvard University: *"The G20 is too large and not as effective as the G8. Some terms are not received as seriously as the traditional old governments like the governments of Europe and USA. The main players feel that all the remaining terms are unnecessary, and taking decisions simply should be encountered in an informal situation and not in a large and bureaucratized meeting with the participation of weaker players, by which each component is important".*

5. The G20 format is insufficient as it hasn't got all the necessary instruments and mechanisms yet. Decisions should be developed in other formats such as by corresponding international expert institutions and organizations, which have to be created in the nearest future then these decisions can be accepted by the G20.

Mustafa Serhan Oksay, Turkey, Associate Proffessor of Political Economy, Kadir Has University: *"The G20 format is not enough. A new global multilateral financial institution is needed to tackle global and regional crisis management. The Financial Stability Board of the G20 may be converted to a multilateral institution."*

6. Preliminary decisions will be created at the regional level and often passed. These initiatives will then be transferred up the ladder according to the *pyramid* principle: first they are agreed to in regional alliances, and then they will be carried for adoption at a global level.

Vladimir Osakovsky, Russia, Head of strategy and research at UniCredit bank: *"If we examine the logic of the development of the positions of the financial system from before the last century through Bretton Woods to now, when the creation of certain supranational structures ripen, then, in particular, conversations about a new reserve currency and so on reflect the need for this discussion and, possibly, motion into the direction of creating some kind of supranational financial structure, a certain prototype of world government. And in this measure, in principle, the G20 has potential."*

In the point of view of possible effective measures for the production and creation of preliminary decisions in the world economy is a very interesting occurrence represented in the distribution of opinions by the expert community with respect to, **is there a need, by analogy with Bretton Woods (where 45 countries participated) of a convocation of an international conference with a wide participation of states, authorized to make key decisions?**

As we see in the Diagram 10A, about 30% of experts consider *that this theme has already matured*, but more than half of the participants stated they do not see the need for a similar size. On the order of only 16% considered a possible large representation of countries and only under specific conditions.

The answers to these questions were a remarkable coincidence as they were in complete agreement in the assessment to the general trends of our experts from developed and developing countries. i.e., in each group of answers we rarely observed unanimity in the views (Diagram 10B).

The supporters of hosting a new international conference like Bretton Woods appeal to those in need of reforming the financial architecture and the production of new rules of the game, which requires a wider direct participation of developing countries.

Diagram 10A

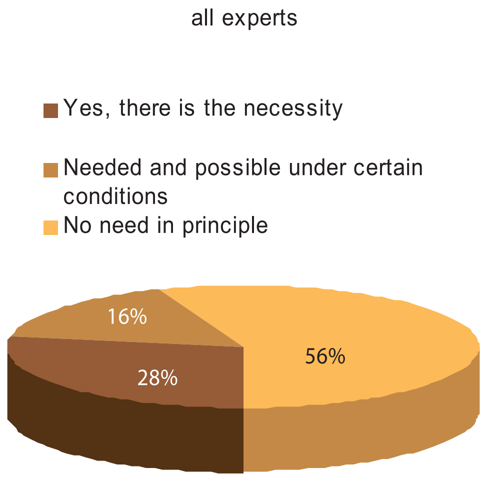
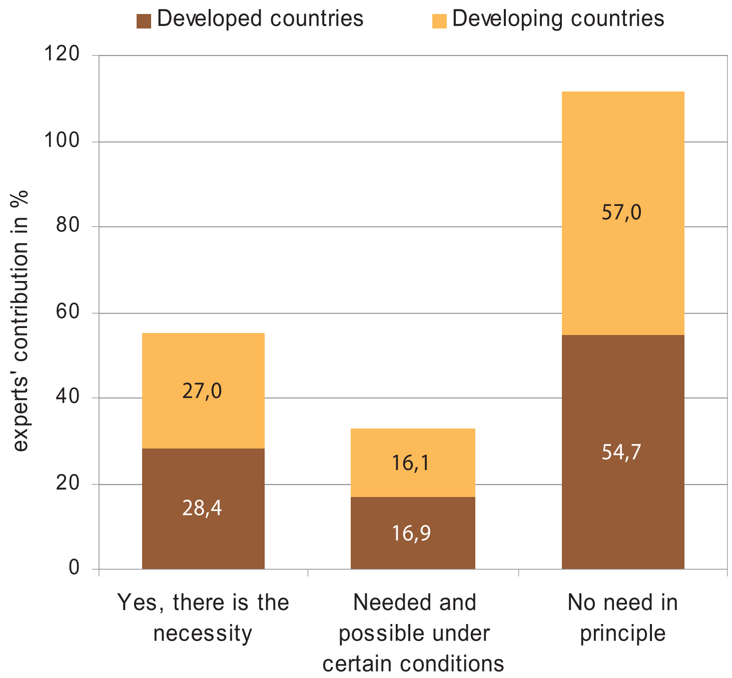


Diagram 10B



Felippe Cademartorl Araujo, Japan, Economist, Nagoya University: *"Yes, there is a growing need for a conference, in which, the core decisions on the reform of the Bretton Woods institutions and the UN can be made jointly."*

In this case, if some experts place emphasis on the reformation of the Bretton Woods institution directly, i.e., the need of a revision in the international system of organization of monetary relations and commercial calculations, then for others, firstly, the principle of a more valid mechanism of comfort and, correspondingly, a wider *quorum* of states that participate in the adoption of global settlements.

Approximately a third of participants in our investigation assume that the expedience or the possibility of a similar conference will begin only under specific conditions. For example, it will be proposed at a corresponding level of *preliminary* solutions. The willingness for a large convocation of a summit may arise when states begin to mature, or when the situation in the world is thrust into a catastrophic incline (war, the complete crash of the economy and the like).

Igor Zaharchenko, Russia, Director for Economical Policy at the Center for Strategic Research: *"An international conference must be called when (a) there will actually be fresh ideas and (b) the influence of the crisis will be so strong that the countries will mature in recognition of a need of conducting this conference. I.e. a real change in architecture, in my view, is possible only if countries will agree to forego a part of their sovereignty and to delegate a part of these authorities (on control of the financial sector) to an organization which is above governmental control."*

And finally, more than half of the experts see no need for the convocation of an international conference. In essence, this is connected either with a certain disbelief into the possibility of not reaching any consensus in a similar extended scope of work and making real changes in the existing system, or the participants in the query believe the universal institutions already in existence are completely capable in managing the vital problems and of making the necessary decisions:

Romain Rancier, France, Economist, Associate Professor, Paris School of Economics: *"Principles should be agreed among the major economies, than there should be some negotiations on how to extend these ideas and principals to other economies. I think that's the way to go. Essentially put some solutions to the centre and to try to extend them to peripheries."*

The discussion about the effectiveness of the size of the G20 in making preliminary decisions regarding questions pertaining to the world economy and financial system and about the expedience of other measures that assume the participation of a wider circle of countries in the decision-making process demonstrate, in our opinion, two main vectors in opinions and approaches of our experts.

Certainly, this question is very complicated when separating a formal organizational component from a meaningful one. The consideration of the best *working* size for an achieved consensus on global issues intersects questions of the type; *who decides, which decides, who benefits,* and the like.

Nevertheless, when the discussion deals with the G20, we see a sharp segmentation in the opinions of the expert community and the already customary divergent trend in opinions of experts from developed and developing countries: the representatives of the developing economies are more critical in their judgments. Here, a large role plays meaningful in an *ideological* approach to this question – acceptance into the G20 where their solutions can reflect the interests and needs of countries by not entering *the Club of the Rich*, how these solutions can exceed the scope of the prevailing system from a domination of financial interests and the removal of system failures in a functioning market.

Sumru Altug, Turkey, Professor of Economics, Centre for Economic Policy Research at the Koc University: *"The G20 format probably continues to attach too high a weight to the developed western countries. However, the BRIC countries – Brazil, Russia, India and China – are turning into a strong counterpoint in economic, political and even cultural terms. The final communiqué of the G20 summit agreed to reforming existing financial institutions for the new challenges of globalization and to formulating a new global consensus on the principles for promoting sustainable economic activity. However, it remains to be seen whether the format of the G20 will be sufficient to address the needs of world's poorest populations – poor countries that have little representation in international financial institutions, yet whose populations suffer disproportionately from any unfavorable global economic developments."*

When it is a question about other formats, including the necessity of a new *Bretton Woods*, a prevailing point of view has appeared, and, herewith, a *point of registry* of participants in our research cease to influence the variances of answers. A purely *instrumental* approach is dominating here - expedient or inexpedient - and the ideological bases including *just* reasoning become insignificant.

Approach: New Instruments or New Ideology

These two basic approaches, *instrumental* or *ideological*, are also traced in other possible formats of effort in the creation of a new financial architecture offered by the experts

In answers to the question: **What format would you offer?** The whole palette of opinions of participants in our research was finally grouped into two main alternatives.

A) The available formats should be used only after raising their efficiency. Cardinal changes are necessary only at the level of instruments. Two thirds of our experts had such point of view (Diagram 11A). Representatives of developed countries are dominated among them (Diagram 11B).

Diagram 11A

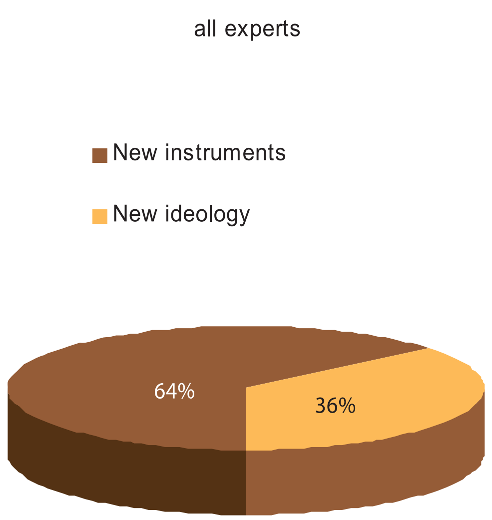
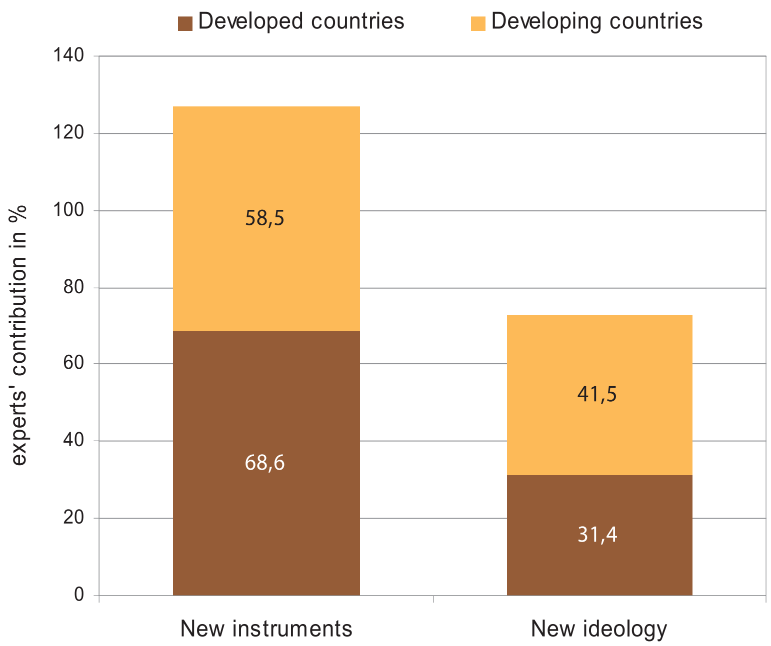


Diagram 11B



B) We are in the need of a new ideology in financial architecture, essentially a new approach is vital. Herewith, this approach, usually assumes that such a question should be considered the opinion of all countries (better to be solved by the entire world). It is a less popular position; hardly more than one third of the participants of the research support it and the representatives of the developing countries dominate among them.

Instruments

Valery Geets, Ukraine, Director, Institute of Economics, National Academy of Sciences of Ukraine: *"We should make the most from the existing formats, before stimulating the creation of new ones."*

- There are no alternatives to the present financial system, maybe just improvements in this system, especially in the field of regulations and surveillance. Accordingly, there is no need in new formats.

- The imposing of new rules and procedures, which can optimize the cooperation between countries, but only inside the existing format, is vital (for example the creation of a public surveillance institute, which will be able to block certain decisions; maximize the level of unification in country's accounting systems and so on...). A slight modification of the *Club Countries*, which are in a narrow format and developing a basis of decision for further acceptance by the wider format is also possible (for example, *G7 - the BRIC*, or *USA - Great Britain - China* and so on with further acceptance by the G20).

- The strengthening of *mandates* of existing world financial structures or their reform is necessary: invitation to the development of decisions of a new financial architecture by the Bank of International Settlements and the Financial Stability Board (having made it the final platform for achievement of corresponding agreements); revision of weight of developing countries such as new leaders from emerging economies such as China in the IMF and other international institutions; strengthening of the WTO and providing the IMF the authority on issues of protectionism in investment and trade areas and so on.

- Expansion of set of instruments is required. For example, the new organizations within the United Nations have to be created. They will take a position of *global controller of commercial bank and stock exchange activity*. It is possible to create a forum of *leading banking executives*, with a more *technical approach* that would be more independent than that of national preferences.

James Conway, Australia, Financial analyst, BHP Billiton: *"At the given moment in the world soar hundreds of ideas and in all sizes. But I think that the current system will be preserved, although the rhetoric about curing the entire free market will be according to a large forgotten calculation and control over financial organizations will be considerably tougher."*

Ideology

- A new ideology is required: moral, values, the change of the leaders and so on.

Nikolai Chuksin, Russia, Economist, Ex-Director General of the Company "Agrochim": *"The basis of the crisis is ideology. The liberal democracy of America is constructed on individualism, consumption and hypocritic politicing, has exhausted its possibilities. Now the question is about the replacement of this system by a new one, which will be viable, and the counters of which are being created right now."*

The fundamental measures of change in the current regulation and oversight of the financial market system and a global revision of financial architecture in general; even as far as the replacement of the single-currency system based on the dollar with a new currency, are required.

Paolo Raimondi, Italy, Economist, Economic Journalist: *"National credit systems should be organized around the authority of the states to create credit with the full collaboration of the operating private banking system. The banking system should be legally sent back to perform its original essential role of promoting and supporting investments and all related activities. Rules to forbid speculation and lax derivative operations with simple but efficient restrictions such as high reserve demands should be introduced. Governments should agree on a set of shared rules on these matters to avoid speculation, off shores, etc. We should agree on a new world currency in the form I described before with international mechanisms of intervention, compensation, and settling disequilibria at the monetary and trade level."*

Another process of making decisions is required that assumes the participation of all interested countries. A model of *level by level* decision making is often offered here from the regional scale up to the global.

Bassem Hafes Qushou, Palestine, Strategic Planner & Training Director, Quds Open University: *'The new format which can be offered, have to be created by all nations, not by me or by the G20."*

Summarizing this chapter, we would like to speak about two major points in detail. Firstly, the ideas about an optimum FORMAT of making decisions on the future reorganization of the world financial architecture is closely knitted in the opinions of the expert community with the ideas about the CONTENT of a prospective reform. Herewith, for all the survey participants who were interested in resolving the fundamental problems of fairness in redistributing of global wealth, world financial flows and income, the existing formats seem to be insufficient. It is obvious that this point of view is a dominating factor among the experts from developing countries. For the survey participants who were, first of all, focused on the stabilization of the financial markets, the existing formats of the development and coordination of decisions seem to be quite sufficient or even superfluous. The representatives of the developed countries are dominating among the supporters in this point of view.

Secondly, there are two basic approaches of choosing an optimum way for the creation of a new world financial architecture. The first (it it is possible to call it *evolutionary*) is connected with the point of view that no radical changes can happen in the nearest future (or they are not necessary at this stage), that's why it is better to solve current questions and problems step by step, activating and improving the existing mechanisms and instruments. It will help to smooth the contradictions and to pull the economy out of crisis.

Michael Pettis, China, Senior Associate, Carnegie Endowment for International Peace, Professor of Finance, Guanghua School of Management Beijing University: *"Whether we plan it or not, a new financial order will arise. Looking back historically I don't really see evidence that formal frameworks for organizing the international financial architecture have been a lot more stable than informal frameworks. For example from 1870 till Word War I there were no formal frameworks, simply informal agreements, and yet it was a fairly stable period. The Bretton Woods period, after World War II, also was fairly stable but I wonder whether that was because of a formal global framework or simply because basically 40 per cent of the world was the United States."*

The other approach (conditionally *revolutionary*) is based on the necessity of radical changes in the nearest future. Multi-polarity should be reached immediately: unless the voices of all countries will be listened to, and all interests are considered, before the reform of a currency system will take place, etc.; the imbalance of the global economy will not be overcome. This is why new formats of development and advancement of decisions on the creation of a new global financial architecture are necessary. Herewith, a preference is given not to the international *authorized forums* with wide participation of the states, but to regional conference formats. Among supporters of this approach, the representatives of the developing economies are dominating and the experts from Post-Soviet countries prevail.

Taking into account all these approaches, the positions of the different countries in the development and advancement of initiatives on a world financial architecture coming to fruition, becomes quite important.

Michael Vinogradov, Russia, The Head of the "St.Petersburg Politics Foundation": *"The G20, is an instrument of harmonization of a position, which has already been developed, not a mechanism of its functioning. Everything will depend on the activities and initiatives of the countries."*

CHAPTER 6. EXPERT ASSESSMENT OF ACTORS OF INFLUENCE

Examining global mechanisms of influence on the decision-making process of overcoming the crisis and of the future reorganization of the financial system as one of the major subjects, we will consider the role of individual countries in the development and advancement of similar decisions.

As part of this research we first of all analzyed the expert opinions about real influence of different countries on the promotion of the initiatives towards the world financial system reorganization, and about the possible expansion of *a map of influence* in the nearest future with the help of countries with developing financial markets.

Secondly, we were interested in how the level of influence the different countries of this issue is connected with the innovative potential of the state, its ability to offer innovative anti-recessionary decisions in the financial area and the successes within its own anti-recessionary policy.

And finally in the third, relating to the ideas of the expert community regarding laws governing the process of renovating the world elite and the role of developing countries in molding a corpus of *newly formed* leaders.

Countries: Players Chances in the Distribution of Power

Rating a Country's Influence

As part of the research we posed our participants a question: **"What countries have real possibilities for promotion of their initiatives on reorganizing the financial system in the world community?"**

Diagram 12

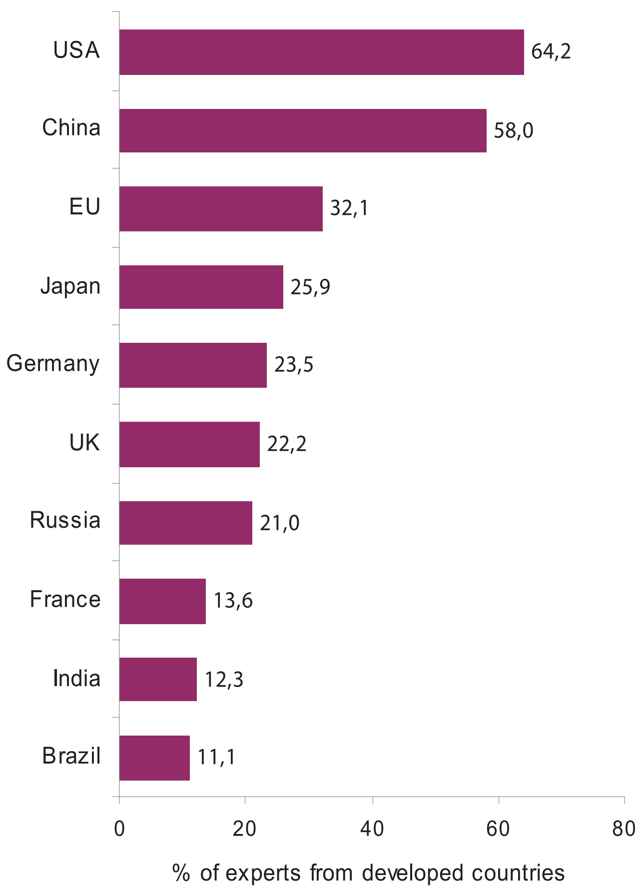
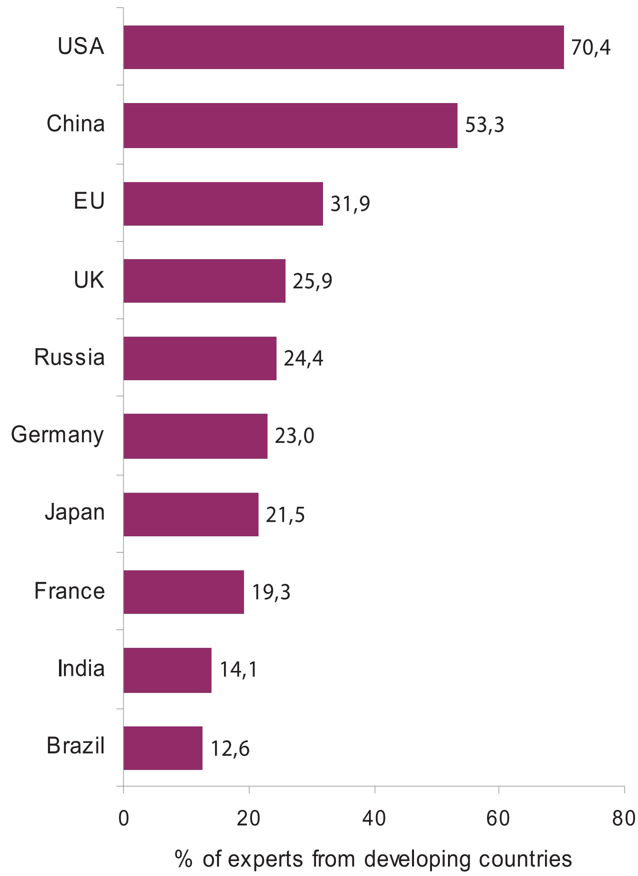


Diagram 13



The Diagrams 12 and 13 display the distribution of answers and opinions of experts from developed and developing countries. A very interesting observation is demonstrated. (The countries which are included in the rating can be named as the ***top 10***, as more than 10% of the questioned experts have chosen them).

The USA and China are winners without a doubt. The EU also can be found in the list of leaders with just a slight deviation from all other countries. Other G8 countries, with the exception of Italy and Canada, take average positions and lastly, at the end of the list of *influential countries*, there are some new members *of the G20*, which take rather modest positions. It is remarkable that such G20 countries as Turkey, Mexico, Indonesia and even Canada which are participants of a leader's forum of *the G7*, basically are not included in this ***top 10*** list. Australia is also *lagging* attention in the survey of participants.

It is necessary to notice that the list nomenclature of the ***top 10*** is equal in the groups of experts from developed and developing countries. The only one thing which is different is configuration, however, slightly. The BRIC countries are included in both lists, and experts from the developing countries have a higher opinion in their role.

Farid Matuk, Peru, Independent Economist: *"G7 countries promote the initiatives; G20 countries provide feedback to G7 initiatives, and all other countries watches the exchange between G7 and G20 countries.*

If we investigate the leaders of the ***top 10***, China's *rating of influence* became a definitive test moment, or line of separation. The question whether China must be included in the list of main actors in the process of the advancement of initiatives in reorganizing the global financial system, a dilemma arises in *an imbalance of influence between developed and developing countries.* The first approach in this question is connected with the argument that the role of a country is directly proportional to its financial power. This is why the developed countries; the traditional economic and financial centers are still *trend setters* and China is not among these leaders despite the increased growing importance of the BRIC countries. It is interesting that the majority of experts adhering to this point of view are the representatives of the developing countries.

Leonardo César Souza Ramos, Brazil, Professor, Pontifical Catholic University of Minas Gerais (PUC Minas): *"Nowadays it is possible to note a dual process: by one side, there are countries with an increasing importance in the world financial system – like China, Brazil and India, for example (with a great role for China, of course); by the other side, the decision-making mechanism of the international institutions still privileges the developed countries from the North."*

Other experts are also guided by the financial power of the country, but China becomes a full member of the club of leaders in their opinion. And finally, there are a number of experts who insist in providing a leading role in the new post-crisis world to China.

Joshua Aizenmann, USA, Professor of Economics, University of California: *"China is making noises that are interesting not because I believe that the SDR is of any viability but its more a way to assert the way a growing economic might go and so I would say that at the end the importance of those countries is related to economic inspiration. So I would say that the idea of China of thinking more broadly on changing the configuration of global currencies is something we should live within. I don't think that the SDR is the starter, I think it was a rehearing that exploded to indicate Chinese agenda. I think the willingness of China to play greater role in its own region means that they will try move within next 15 years into a situation where in the Euro area there will be Euro and maybe the Yuan in the Chinese area. So this is, I would say, the most important development. I heard other things that I am not too impressed by. And again I am impressed by Chinese movement not because of necessarily better ideas than other people but simply because their ideas are linked to the economic mind and economic inspirations."*

Some participants of our research especially underlined the increased role and influence on the world processes of developing economies. Herewith, was a question, besides China, about other the BRIC countries – Brazil, Russia, India, and about the countries with an Islamic *point of view on the economy*, such as countries from the Middle East and South East Asia.

A number of experts believe that in this situation, no one country will be able to affect the decision-making process for its own benefit or to find a way out of crisis, separately.

Marek Dabrowsky, Poland, Professor of Economics, President of CASE - Center for Social and Economic Research in Warsaw: *"There is no country, which can solve these questions single-handedly, even the United States of America. They of course, are dominating, especially in the financial markets, and it is the main centre of the economy, but after all, from the example of the actions of the United States government, it has turned out that when providing stability, taking unilateral decisions is not enough."*

Probably, this is why some experts see the possibilities of an increase in influence with the help of blocks of coalition countries.

> **Zhanat Kurmanov, Kazakhstan, Independent Director of Kazakhstan Deposit Insurance Fund:** *"It appears separate groups of interests and regional centers have been created for the development and advancement of initiatives. These groups are in the G8: the USA and Great Britain, France and Germany, some a few the BRIC countries. The regional centers include the USA and Canada, the EU, and Russia and China. Certainly these countries, which are the participants of these groups and centers, have the strongest positions in the development and decision-making process."*

Also, there is the view that the role of individual countries regarding the issue of advancement of global initiatives on financial system reorganization is not necessarily urgent, which is in contradiction to the international institutions that should start to play a leading role as *headquarters* for the development of new ideas and directives.

Herewith, the cumulative opinions of the expert community agree that developed countries still have larger opportunities in initiative advancement, especially the US, which is always trying to hold on to its initiatives. However, the balance is gradually tilting to the side of developing countries.

New Candidates to the Combined Team

Continuing a theme of potentially growing influence of developing countries, we asked the participants of the research to make their own rating of NON-BRIC countries (Brazil, Russia, India, China), which will play a bigger role in a world financial system? We were interested in whether there are such countries in post-Soviet territory.

Approximately half of our experts either found difficulty in providing such long-term forecasts or considered that none of these countries had a sufficient potential in strengthening its role in a world financial system.

Diagram 14

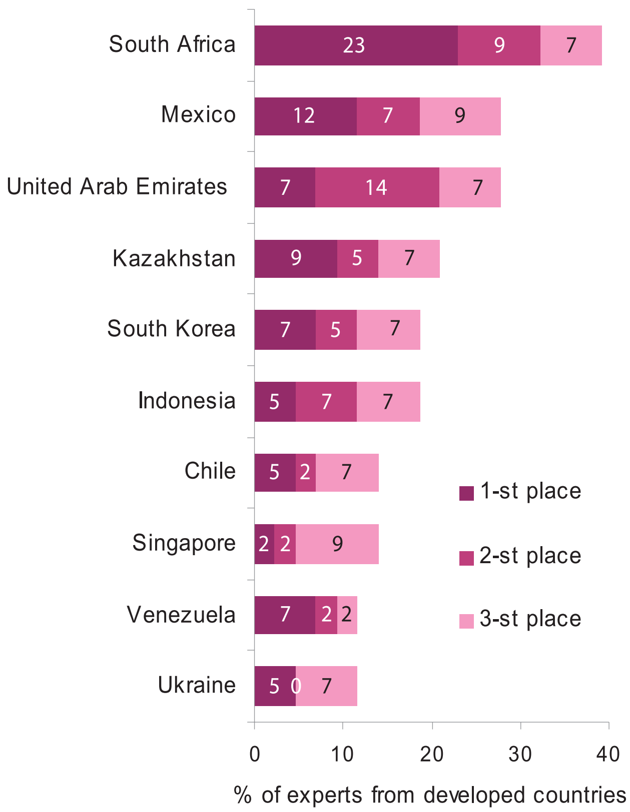
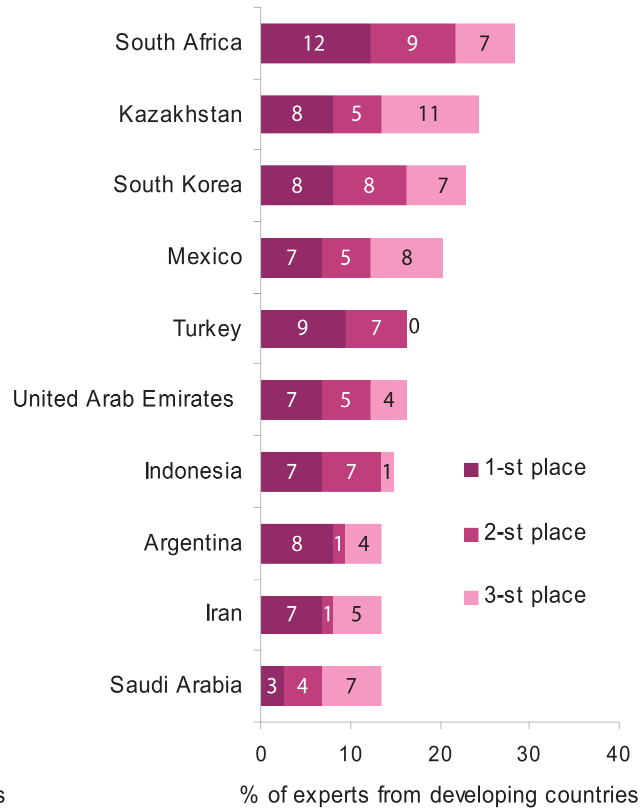


Diagram 15



Nevertheless, the other half of participants of the survey names the potential favorites. The received rating lists are given on Diagrams 14 and 15 (another ***top 10*** list). As we can see, a major part of the nominal list agrees. Herewith, only 4 states from the top list, according to experts from the developed countries, are members of the G20. According to experts from developing countries, seven members of *the Big Twenty* were included in the top-10 list. The difference in opinions of experts from the developed and developing countries is more significant than in the previous case. Also the order of the countries, their positions in the rating of *potential* *growth of influence* is changing significantly. So, only the SAR is invariably in first place, among the three leaders, (and for the experts from the developing countries, with a smaller separation from the other applicants). Kazakhstan, Mexico and South Korea are included in *fifth* in both cases, but the representatives of the *developed* countries place Mexico and the UAE in second and in third, participants of the survey from developing countries preferred Kazakhstan and South Korea.

A separate part of the list is also remarkable. The experts from developed countries included such countries as Chile, Singapore, Venezuela and Ukraine in the top 10, which happen to be in the last 4 positions of the rating. The list of potential leaders, as noted by the experts from developing countries, are not presented, but include Turkey, Argentina, Iran and SaudI Arabia, Turkey being included in the top five.

To substantiate their choice, according to a number of experts that some of countries are going to improve their positions, countries such as South Korea, UAE, Kuwait, and Singapore will become developed. Moreover, they haven't suffered from the crisis as much as *the old* industrial countries. In very rare cases, the potential growth of influence of a country in the world financial architecture was rigidly connected with the presence of nuclear arms (this issue remained a constant with Russia).

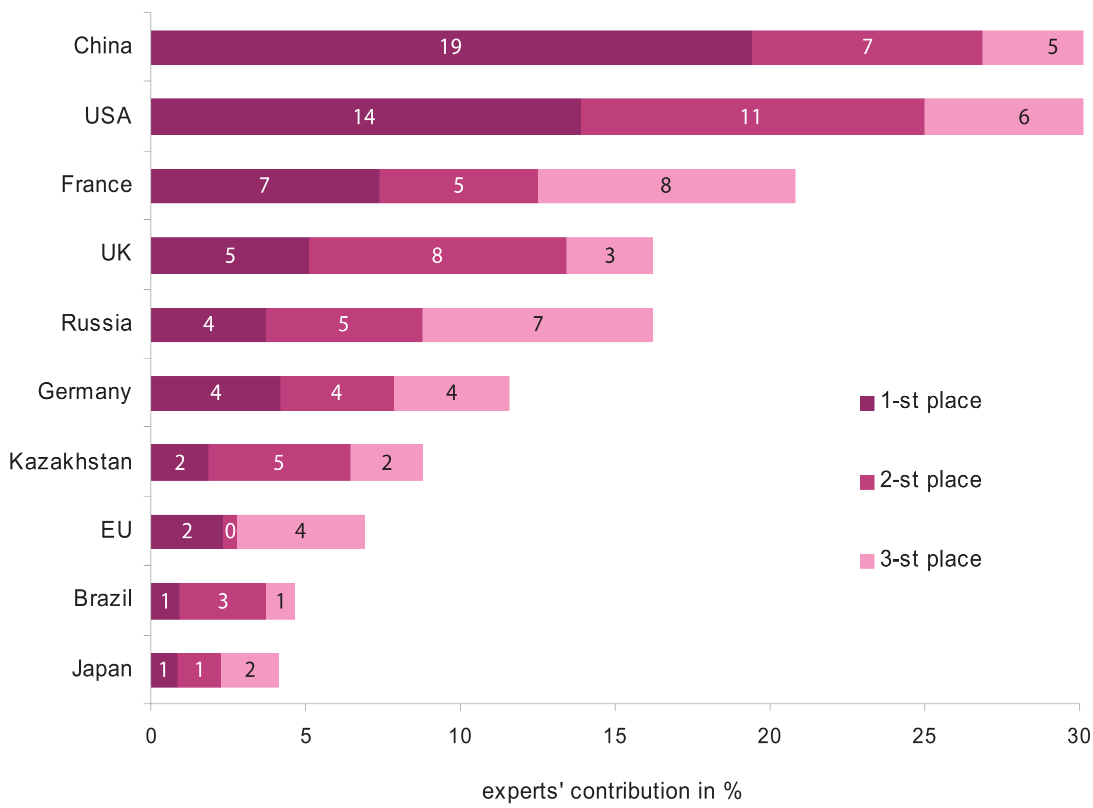
But more often, speaking about the potential, with the help of which these countries can strengthen their roles, experts marked the presence of natural and human resources, and quality of political and economic management (Indonesia, Iran, Kazakhstan, Venezuela). Also some participants of the survey focused their attention on the potential of the countries from the point of view of their technological potential, introduction of new technologies, including the delivery of resources, materials or services, which are necessary for the production of green or pure energy.

Herewith, in the present expert environment a certain vision of a potential *benchmark* in the big game for influence on the world financial *deal* exists. Certainly, many things will depend on further indicators of these countries in a struggle against the recession, and on the positions of their leaders and actions of their governments. However, sights of the global intellectual and financial elite are already chained to these countries.

Anti-Crisis Decisions Rating

During the survey we also asked the experts to make their own rating of three countries which offered interesting anti-recessionary measures in the financial area.

Diagram 16



In this question, with a significant majority, the experts agreed China and the USA are leading (Diagram 16). Herewith, experts had no doubts in China's *competency* and including it in the list of those who OFFERED interesting measures, unlike the case when it was needed to estimate those who INFLUENCE the advancement of initiatives. Also it is interesting to notice that the EU (as a separate supranational subject) is greatly losing its position in comparison with previous ratings that some European countries had put forward: France, Great Britain and Germany. Russia is also included in this group. Japan and Brazil are close in this top 10 list.

A number of experts preferred *traditional* leaders in the financial market: the US, Great Britain, and the EU. Germany was an interesting option to the experts because of its proposal to use force on derivatives and toxic assets, France – because of the idea of state investment in the real sector of economy for the production and support of employment, and Britain for its proposed re-structuring of the banking system, which partially includes nationalization etc.

Oleg Vyugin, Russia, MDM-Bank Board Chairman: *"The measures of the US are interesting because of the inherent share of global adventurism. Great Britain – because of the resoluteness in a question of bank nationalisation. Germany – because of its pragmatism and a strict target orientation."*

Other participants of the questioning underlined the role of developing countries in offering viable anti-recessionary decisions in the financial area to the world community.

China draws attention amoungst the participants in the survey by the creation of an international trade system without the presence of the dollar or euro (*swap* operations) and by a program of advancement and support of its own internal economy and infrastructure; Malaysia – by the measures of protection from mass operational capital flow, Brazil – through the experience in the area of bank crises management, etc.

In the field of international initiatives, approval was obtained by China and Russia for the use of Special Drawing Rights as a basic global reserve currency and by the participants of Bolivariansky as an alternative for to the regional policies of America.

Ilya Ponomaryov, Russia, Deputy of the State Duma: *"ALBA is a model, which the world should be guided by, because it is an alliance, which was built on reality, in my point of view, on economic and political mutual interests. It is an alliance where people try not to fool or to use each other in their own interests, but to create a common space for the sake of certain strategic aims. Nowadays, the centre of a global policy is where the developments, which can be used as global initiatives in the future, are created - and this place is Latin America. It concerns both political and economic decisions."*

The cumulative opinion of the majority of participants of our research shows that there is quite a narrow list of countries that can be considered as initiators of interesting anti-recessionary decisions in the financial sphere. This short-list coincides with what is presented in the Diagrams 14 and 15, except one curious exception: Kazakhstan was also included there, as it has outstripped the area of anti-recessionary initiatives even by the solid supranational organ as the EU. It is necessary to mention that about a half of experts, who chose the Kazakhstan in this rating are the representatives of former USSR states. Nevertheless, Kazakhstan appears to be the only country, except Russia, on post-Soviet territory, whose ideas and success on the anti-recessionary front have drawn attention of the multinational expert community.

Herewith, the attention of experts are drawn by Kazakhstan innovative developments in the field of internal anti-recessionary policy, which are perceived as *a reference point for other countries of this region* including Russia (measures of struggling against bad debt in the banking sector, measures of realizing bad assets, and measures in support of the building sector, etc.), and by the global initiatives of this state at the international level.

James Conway, Australia, Financial Analyst, BHP Billiton: *"A seriously real radical solution was represented only by Kazakhstan and some other countries. The discussion deals with the creation of a new world currency. In this idea to eat potential to create a stabilizing influence on the world economy and to restore the confidence of investors in the world financial market."*

By the way, following the example of Kazakhstan, it becomes especially obvious that when the discussion deals with *interesting anti-crisis solutions in the financial sphere*, the experts are divided into two categories according to their responses. Firstly, those who evaluate these or other countries' initiatives concerning the reconstruction of a financial architecture, and those, who, to a larger degree, are oriented towards the success of countries with their own anti-crisis policies, so to say, effective solutions approved for internal needs.

And here, in our opinion, it is completely unimportant which of these remedies are to be considered as *correct*. It is much more important to answer another question: whether the degree of influence of a country in the world financial system must correspondingly depend on its ability to propose interesting ideas or to realize effective solutions? whether *the place* of the state in the world hierarchy reflects its innovation potential? Or does the existing "*distribution of power*" in principle not consider such a variable?

Nickolal Zlobin, USA, Director of the Russia and Eurasia Project at the World Security Institute: *"I think that Kazakhstan undoubtedly leads on the post-Soviet space from the point of view of initiatives. The regional initiatives of Kazakhstan are directed toward the globalization of Kazakhstan, toward its output on a global level. It wants to become a regional leader in order to rise immediately to the following step. On the post-Soviet space I would place Russian initiatives in second place. There is a heap of interesting initiatives. But in contrast to Kazakhstan, in the expert community, Russian, and international, there is no confidence that these initiatives have political support."*

It is hardly possible to find an answer to this question within the framework of this investigation, but it is now and then necessary to, as a minimum, point out the problem so that a hope to find a solution for it at least would appear in the course of time.

Personal Influence – New Wave

Discussing the subject of influence on decision making by the output of the world economy from the crisis and the future reconstruction of the financial system, it is not possible to revolve attention around the role of individual personalities – politicians, economists, thinkers in the modern world, who in view of their dignity or wide professional reputation render serious indoctrination of the world community.

Structural Change

Ben Aris, Germany, Chief Editor and Publicher of the Business New Europe Magazine: *"The crisis marks the end of the US as a super power and move towards the multipolar workld the Russians have been talking about. The political and economic centre of gravity has moved eastwards from mid-atlanitic to somewhere in france now [sic] and will move into germany over the next 20 years and then possibly into Russia as the cente of the world –literally. this shift is already clear from the fact ofa G20 not a G7 as I mentioned above. This will mena a reshuffling of global leaders to represent these countries interests."*

One of the questions, which did disturb the authors of this investigation; **how immediate, in the light of the world crisis, would a change of world elites take effect? Will the appearing new names have serious potential to become a part of the new world elite?**

As we can see in the Diagram 17A, about a half of all experts who have taken part in the research, have experienced difficulties in formulating opinions about this question, or even have left it without an answer. Avoiding or ignoring the given theme is quite symptomatic; however, the discussion of this tendency is beyond the framework of the present research.

Diagram 17A

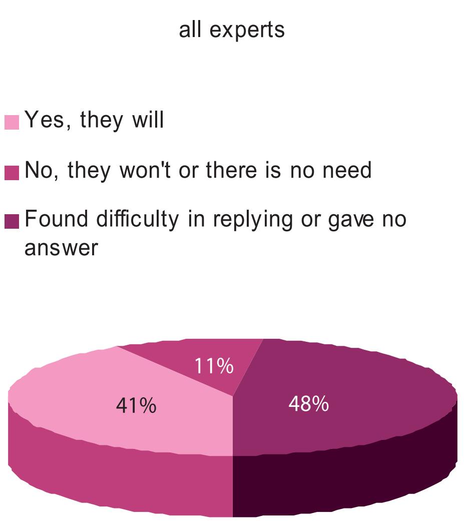
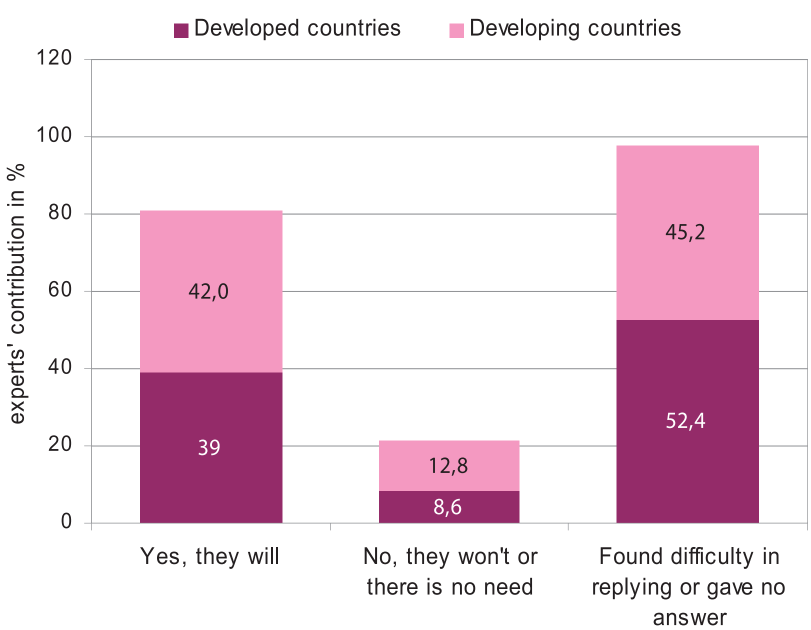


Diagram 17B



The judgments of experts, which have answered this question, are undoubtedly of a great interest to us. The overwhelming majority of our participants consider that the occurrence of a new formation of leaders is quite real. Herewith, the opinions of the experts from developed and developing countries coincide in this question (Diagram 17B).

A number of experts believe that the global crisis is a result of erroneous actions and oversights of the old elite. It is clear that we have faced a crisis of ideas, the existing economic-political system has ceased to be able cope with the constantly rising and more difficult problems.

Lorenzo Carrasco Bazúa, Brazil, Director, Ibero-American Solidarity Movement: *"I believe that we're living through a fully civilizational crisis, in which the current paradigm for solving the world problems is completely out of tune with the growing complexities of such problems and the needs and aspirations of the populations of most countries. So, I think that there's a real need for a full re-thinking of the political, economic and even scientific ideas, including with a reappraisal of some lines of thought that produced good results before."*

However, one fifth of experts is sure that, despite the ripened necessity of the elite being updated, it will not occur – the old elite is reluctant to hand over their positions.

Jacques Sapir, France, Professor of Economics at the School for Advanced Studies in the Social Sciences: *"There has been a dramatic failure of most of the world elite in the last three of four years. They have been unable to prevent and then have been very slow to address this crisis, be it at the world level or at the country level. I am however a bit skeptical about the likely renewal of such an elite. They will not move out by themselves"*

As a counterbalance, 40% of the experts considered that the process of updating the world elite has already begun, and the formation of new leaders will express themselves in the near future. Crisis has given chance to a new generation of influential leaders to step onto the stage. According to a number of participants of our research, the changes in world elite structure, which were observed by part of the business community, are the heralded changes which, will sooner or later, will occur in the political sector.

Roland Nash, UK, Chief, Analytical Department, Renaissance Capital: *"It's not a question if there is a need or not, it will inevitably happen. One way thinking about the financial crisis is that it is simply the arbitrage of economic change in the world that happened in the last fifteen years. In a financial centre, just catching up with economic changes that have already happened and financial market tends move much more quickly than economies. So, there is already a new elite emerging and when the entire financial crisis is done the process will have catalyzed making it quicker."*

Commenting about the appearance of new leaders, experts notice that they will be individuals with *a new set of qualities*. Here, an increased requirement for innovators, creators of breakthrough ideas and technologies, and also representatives in the humanitarian sphere and civil society were noticed, as the epoch has higher demands on leaders with valuable assets such as intelligence and cultural awareness.

One of the interesting tendencies given in this research according to a number of experts is the emergence of a *national* elite, which includes the representatives of developing countries when traditionally only the representatives of developed countries were invited.

Yaroslav Lisovolik, Russia, Chief Economist of Deutsche UFG: *"I think that world elite will be formed at the expense of a national elite in the case of strengthening and tightening of international organizations. There are some examples of it. Some leading employees of the International Monetary Fund are former key ministers of developing countries. In particular, the chairman of Brazil became one of the key figures in the International Monetary Fund. I think, this process will proceed, and undoubtedly there is a potential for diversification, for growth of a variety of world financial elite, because it is excessively concentrated on the representatives of the developed countries. And now, in the process of the international institutions functions changing, in case if they will be more balanced and will better reflect a part of their interests to developing countries, both the business and international financial organizational elite will also represent the emerging markets, in a greater degree. Therefore, there is a huge space for dynamism and for higher representativeness of the world in the foreseeable prospective future."*

New Heroes

During the research we also asked our participants to name the new stars who have serious potential to become part of the world elite in the economic, financial, political, state activity, and humanitarian areas.

Many experts noticed that to define a future *new hero* is a difficult problem today. On the one hand, the authoritative economist's forecasts, whose measures were improbable in pre-crisis conditions, became reality, and have long been known in professional circles. Among them, for example, would be the Nobel Prize Laureates in Economics. Heads of governments and national banks of developing countries, whose anti-recessionary policies are considered successful, are also difficult to put into a *new* category. On the other hand, not much time has passed for the new heroes to express themselves on a world-wide scale.

Paolo Raimondi, Economist, Economic Journalist, Italy: *"We have to identify who, when all the others played in the chorus of globalization and speculation, denounced the danger of collapse and proposed workable solutions. Their names are probably not well known because the media played up only the globalization propaganda men. In Italy I worked on this solutions since at least twenty years with a number of collaborators, like Mario Lettieri, former Economics undersecretary, and all the economist and politicians who signed with me the famous Modena Initiative Declaration. I would also look more in the developing sector, like the group of collaborators of Prof. Carlos Lessa in Brazil, for example."*

Nevertheless, it is clear that this process has already begun. The fact that the experts mention among the most successful and far-sighted politicians not only the heads of states and high-ranking officials of the USA, United Kingdom, Germany, France, but also the heads of Russia, China and Kazakhstan, is an acknowledgement.

The list of politicians and economists, whose names were repeatedly called by the participants of the research as *leaders of a new wave* is given under this paragraph (names are given in accordance to the frequency of mentions; it is possible to look at the full list of the names called by the experts in the expanded version of the present report on the Institute site).

As we can see, this list contains some really new names of politicians and economists, who only recently became known but have been *in the public service* for some time. *New leaders* do not necessarily mean *new names*. More likely, it is a question of new qualities; of professional, strong-willed human potential which permits a new wave of leaders to offer innovative approaches and to make the necessary decisions that are so in demand during a period of crisis.

1. Nouriel Roubini,
Professor of Economics and International Business at the Stern School of Business, New York University, the Co-founder and Chairman of RGE Monitor

2. Barak Obama,
the President of the USA

3. Paul Krugman,
Professor of Economics and International Affairs at the Woodrow Wilson School Public and International Affairs, the Nobel Prize Laureate in Economics

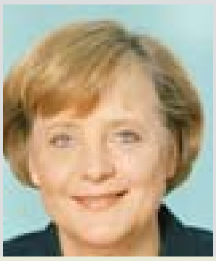
4. Joseph Stiglitz,
the Nobel Prize Laureate in Economics, Chairman of the Commission of Experts of the President of the General Assembly on Reforms of the International Monetary and Financial System

5. Dani Rodrik,
Professor of International Political Economy at the John F. Kennedy School of Government at the Harvard University

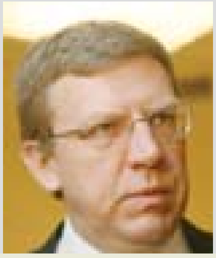
6. Vladimir Putin,
the Prime Minister of the Government of the Russian Federation

7. Dmitri Medvedev,
the President of the Russian Federation

8. Gordon Brown,
the Prime Minister of the United Kingdom of Great Britain and Northern Ireland

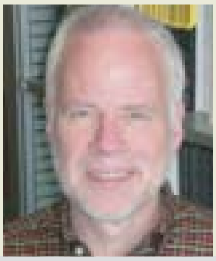


9. Angela Merkel,
the Federal Chancellor
of the Federal Republic of Germany

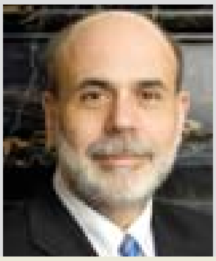


10. Alexei Kudrin,
the Minister of Finance
of the Russian Federation

11. Nursultan Nazarbayev,
the President of the Republic
of Kazakhstan



12. Barry Eichengreen,
Professor of Economics and Political
Science at the University of California,
Berkeley



13. Ben S. Bernanke,
the Chairman and a member
of the Board of Governors
of the Federal Reserve System,
the Chairman of the Council
of Economic experts of the White House

14. Paul Volcker,
the Chairman of the President's
Economic Recovery Advisory Board

15. Nicolas Sarkozy,
the President of France

16. Karim Massimov,
the Prime-minister of Republic
of Kazakhstan

17. Hu Jintao,
the General Secretary of the Central
Committee of the Central Committee
of the Communist Party of China,
the Chairman of the People's Republic
of China

18. Mohamed El-Erian,
the former Deputy Director
of the International Monetary Fund,
the Chief Executive Officer
and Co-founder of the Pacific
Investment Management Co.,
Pacific Investment Management Co.

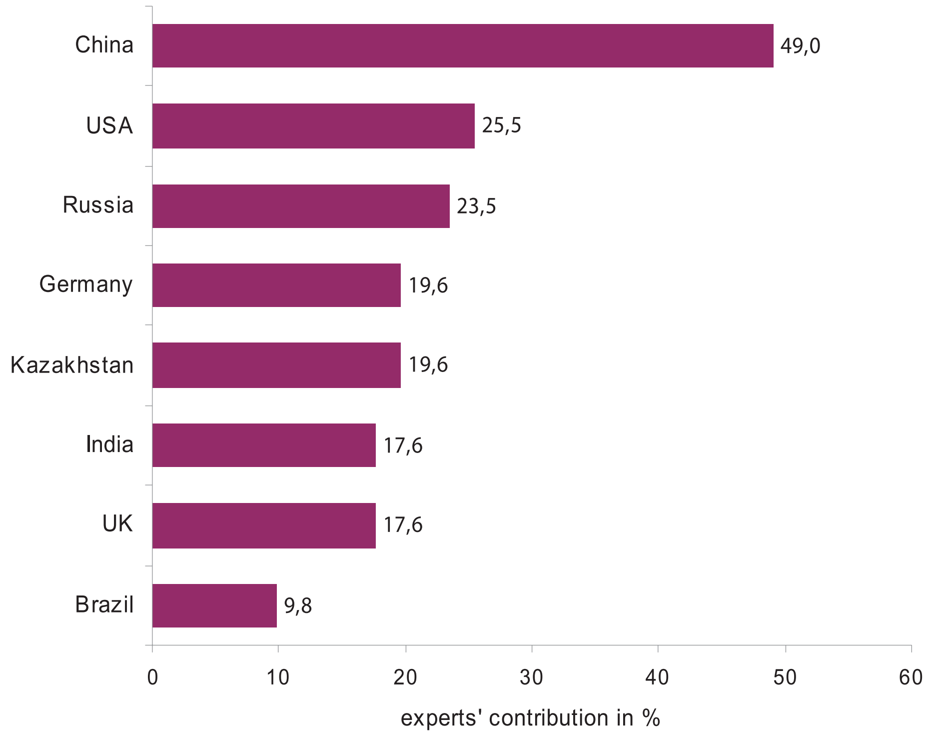
Valery Geets, Ukraine, Director, Institute of Economics, National Academy of Sciences of Ukraine: *"Updating the elite is a constant process. Crisis imposes increased requirements on the candidates on leadership in the aspect of intellectual and cultural potentials, abilities to think strategically. The advancement to the foreground of B. Obama and D. Medvedev is a part of this process. The president of Kazakhstan, N. Nazarbaev also has the potential to transform to a leadership position on a global scale."*

In this case, the definition of those countries which governments operate effectively and productively in today's transition period, as suggested by the participants of the research, become quite indicative (Diagram 18). As we can see, the top-list which, was created according to the opinions of our multinational expert pool, includes the states of the developing world along with the traditional economic and financial leaders, as the USA, Great Britain and Germany, also all the BRIC countries and Kazakhstan.

The experts most often noted China, the US, Russia, the European Union, United Kingdom, Kazakhstan and Brazil among the countries which national banks operate most successfully at present.

Herewith, the revision of the world elite, the occurrence of leaders coming into existence is expected and rather typical. Moreover, and quite probable, the expert community considers the formation inevitable as earlier representatives of developed countries traditionally entered at the expense of representatives of those from developing countries. Great expectations from *young* industrial countries are also supported with the appreciation the ex-

Diagram 18



pert community provides to anti-recessionary initiatives at the international level, and also with their success in the realization of anti-recessionary policy.

Sergei Filonovich, Russia, Dean, Higher School of Economics: *"The collision of cultures will necessarily occur in the world. On the one hand, it is an eastern system of thinking, which will be in the sphere of influence of China, and we will need to deal with it. Moreover, if Russia wants to compete with it, it will have to cope with the system, and I should say that Russian people in comparison with American people have an advantage in this aspect of business. Blok didn't write in vain: 'They all realize: both sharp Gallic sense and the gloomy German genius'. Russia is called Euroasia, or Asiaopa, it depends on accents and likings. But Russian people can really appreciate others, as Russia is an essentially multinational country. On the other hand, in the West it is possible to see an intellectual lock. There are no serious and creative ideas, everybody only repeats that it is a special crisis and economists offer traditional means of industrial economics to emerge from the crisis... Therefore the world will be already multi-polar. Intellectual leadership can now be caught by those who feel it is convenient to do so."*

On the other hand, developing countries, as a matter of fact, have been deprived in the possibility to influence the decision-making process concerning the future of the world financial architecture. Just take as an example, how sharply has the assessment of the China's chances to promote its initiatives on the reorganization of the world financial system polarized the expert community. China was perceived by the majority of participants of the research as a real leader of the post-crisis world.

There is a certain echo of *double standards*: we estimate the fact the expansion of the forum of country-leaders as recognition of their increased influence in the decision-making process, which have global consequences for the world economy and the financial system, or we agree that it has an exclusive rating value and it is no more than a political *curtsey*.

The same ambivalence is presented in the estimation of the roles of supranational institutions in the development and promotion of new economic ideas. The majority of experts acknowledge that present efforts of leading world institutions and decisions accepted on global platforms are concentrated on the smoothing of consequences of the financial crisis instead of designing an essentially new post-crisis financial architecture. However, many of experts assume that the further efforts of current supranational institutions will be directed on the rescue of the modern system instead of the creation of a new one.

Therefore, it is probable that by offering optimum ways and formats for the development of necessary solutions, the expert community is also divided into two camps: ones consider that it is necessary to strengthen or reform the modern global institutions of regulation (the IMF, the FSB etc.), and the others believe that the overwhelming majority of countries should count only on their own forces and to form their own regional institutions and platforms.

Today, it already is obvious: a new era is coming – the increasing role starts to play not only on the Gross National Product of a country, but its innovative potential. Many creative decisions will be developed both at the regional level, and in separate blocks containing the alliances and coalitions of various countries. The idea of such cooperation is becoming more and more perspective. Europe is dissatisfied with the absence of radical decisions in the sphere of functioning of the financial markets, and developing countries are dissatisfied with the absence of decisions on a more *fair* financial architecture of the world which, would allow to eliminate the imbalance of interests of developed and developing countries. In our opinion, it is the obvious ground for further profound cooperation.

According to this, we feel that it was important to analyze the modern system of the supranational regulation and surveillance in the research. Also, speaking about mechanisms of influence on the decision-making process on the world financial architecture, it seemed to us rather interesting and indicative to consider the role of separate countries in the development of decisions of the G20.

CHAPTER 7. ANALYSIS OF THE INSTITUTE: CONFIGURATION OF SUPRANATIONAL INSTITUTIONS IN THE POST-CRISIS WORLD

Forming Supranational Regulation and Oversight in the Post-Crisis World

The consequences about the necessity of forming elements of regulation and supervision on the supranational level evoked a major reaction by the world community on the global financial and economic crisis. Such a necessity was caused by sharp increases in the number and volume of trans-boundary operations and the fundamental strengthening of the role of transnational financial organizations in aggregate to conduct essentially anther level of interdependence of countries in the capital world market.

Under these terms, even under the condition of an optimized national consensus of regulation and supervision in the field of the financial markets, countries will not feel secure because of the presence of a considerable quantity of external risks formed outside national jurisdictions. This is why protecting against the crisis phenomena at the level of national regulation and oversight in the modern world is absolutely insufficient. Globalization of the financial markets naturally demands regulation and oversight at the international level.

It is impossible to create global financial regulations which can be completely adequate to the attained level of globalization in the world owing to the presence of inconsistent national interests of various countries. The presence in the introduction of global regulation by world governments is possible only on the terms of a consensus, at least, by the leading countries of the world. This is why in modern conditions the introduction of separate elements of global regulation and supervision in the financial markets become possible.

Herewith, it is necessary to allocate two levels on which such elements are introduced: the level of the world and the level of separate regional associations of countries, which are noted for an advanced degree of integration of national economies and national financial markets.

At an absolute global level, i.e. at the level of the whole world, possibilities in the introduction of elements of global regulation and oversight appeared extremely limited. The complexity of arrangements in strengthening of the role of international financial organizations and strengthening their interaction became the most significant achievement at this level. The analysis of the given elements of global regulation and oversight will be presented in the Chapter 7.

Besides, in the Declaration on Strengthening the Financial System in the directive International Cooperation one of the solutions of issues are as follows: on the basis of founding 28 supervising joint organs not later than in June, 2009 and similar bodies for the large multinational companies.

Decisions to create other supranational institutions at the world level have not been accepted at the London Summit.

At the level of the regional integration of associations, more preconditions for the introduction of elements in supranational regulation and oversight exist. Thus, two major factors defining the degree of advancement of formation of supranational regulation and oversight, is the degree of integration of national, social and economic systems within a regional union and already achieved results in the field of development of supranational regulation and oversight.

The European Union heavily promoted, over others, the construction of a system of supranational regulation and oversight in the financial markets, including supranational regulatory and supervisory bodies. The summit of European countries, which preceded the previous summit in London of the G20, discussed the essential progress arranged in this direction. For more detail about the formation in Europe of supranational regulatory and supranational supervisory bodies see further the Chapter 7.

Role and Interaction of International Financial Organizations

The Action plan which was to help to avoid the global financial crisis, accepted at the summit in London, provided for the creation of a new international body – the Financial Stability Board (FSB) with an expanded mandate as the successor of the Financial Stability Forum (FSF). According to the main London Summit decisions this new institution has to play the most important role as the part of the post-crisis global financial architecture.

In the Declaration on Strengthening the Financial System Statement the following functions of the FSB are described:

- To analyze the factors of vulnerability which are noted in the financial system, to define and to control demanded measures in connection with them;
- To promote the coordination of work and the exchange information between the bodies which are responsible for the maintenance of financial stability;
- To trace changes in the markets and their consequences for the policy of regulation and to give corresponding recommendations;
- To represent recommendations concerning optimum practice of oversight of standards of regulation and do corresponding work on the monitoring;
- To lead joint strategic reviews of activity of the international bodies on standardization in the field of working out policy for the maintenance that their work was coordinated on time, and that priority problems are aimed at performance and elimination of available disadvantages;
- To establish supervising principles concerning the creation of supervisory joint bodies and to support measures in the creation of such bodies and participation in them, including permanent positions by the definition of the most important backbone trans-boundary companies;
- To maintain planning of emergency measures on settlement of trans-boundary crises, concerning in particular the backbone companies; and
- To cooperate with the IMF in carrying out of actions for early prevention and to reveal rising macroeconomic and financial risks and to inform about such cases to the IMF and Ministers of Finance and heads of the central banks of the countries of the *Group of Twenty*, and also to define necessary measures.

Members of the FSB undertake to maintain financial stability, to raise openness and transparency of the financial sector, to apply international financial standards (including 12 key international standards and codes), and also to agree with the carrying out of periodic independent reviews with the use of available data, including reports prepared in the network of the Program of the IMF / World Bank Financial Sector Assessment. The FSB will develop these obligations and the estimation process, and also it will deliver reports on these points.

Combining the specified functions, it is necessary to pay attention that the FSB will develop recommendations and principles which can be applied further in developing global financial regulation. Simultaneously the FSB is entrusted with control functions over the efficiency of national financial sectors. The FSB will also carry out the analysis of factors of volatility of the global financial system and actions for the early prevention of global crises. It is also necessary to take into account the participation of the FSB in actions for the settlement of trans-boundary crises.

An analysis of these 4 groups of granted functions provide the following conclusions:

1. The set of functions is too wide to qualify a new body as solely a global *proto-regulator* or global *proto-controller*.
2. The width of the assigned functions make the FSB a central link in the system of interaction of all international financial organizations in the post-crisis world.
3. On the basis of a number of functions in the future (10 – 15-years) the FSB can become a sterling global supranational regulator or a supranational controller. Transformation of FSB into a supranational arbitrator is also possible.

As it is represented, empowerment of the FSB is directly connected with the efficiency of activity of its predecessor – the FSF – during, at least, the last decade, and also with that niche in a division of labor among international financial organizations which has developed in this decade that has united two global financial crises.

The Financial Stability Forum was founded in April, 1999, by the ministers of finance and heads of the central banks of G7 countries in order to promote international financial stability through an information exchange and international cooperation in the area of financial supervision.

The Ministries of Finance, Central Banks and other organs of the financial supervision of 12 countries and 5 international financial organizations (Bank of International Settlements, the European Central Bank, the International Monetary Fund, the International Organization of Cooperation and Development, the World Bank) and 6 bodies, associations and organizations, which establish the international standards in the area of finan-

Table 1. 12 Key Standards for Sound Financial Systems of the FSF		
AREA	**STANDARD**	**DECISION MAKING BODY**[30]
MACROECONOMIC POLICY AND TRANSPARENCY OF DATA INFORMATION		
Transparency of monetary and financial policy	The code of best practice in the field of transparency of monetary and financial policy	IMF
Transparency of fiscal policy	The code of best practice in the field of transparency of fiscal policy	IMF
Distribution of information	Special and general standards of distribution of information	IMF
INSTITUTIONAL AND MARKET INFRASTRUCTURE		
Bankruptcy	Bankruptcy and the rights of creditors	World Bank
Corporate governance	Corporate governance principles	OECD
Financial reporting	International standards of financial reporting (ISFR)	IFRS Council
Audit	The international standards of audit	IFAC
Payments and calculations	Key principles of system-important payment systems	BIS BIS / IOSCO
Integrity of the market	Recommendations about systems of securities calculation	FATF
REGULATION AND SUPERVISION IN THE FINANCIAL MARKET		
Bank supervision	Key principles of effective bank supervision	BIS
Securities market regulation	The purposes and principles of securities market regulation	IOSCO
Supervision of the insurance services market	Key principles of insurance activity	IAIS

cial markets (3 committees of the Bank of International Settlements, the International Association of Supervision in the Insurance Markets, Council of International Financial Reporting and the International Association of Regulators of Securities Markets) are members of the FSF[29].

The FSF supports 12 key Standards of safety of financial systems (12 Key Standards for Sound Financial Systems), which set the world's front line practice in various aspects of the function and regulation of the financial markets (see table 1).

Activities of the FSF are not very familiar among the experts from Russia and other CIS countries, who continue to fundamentally underestimate the role of this organization in international efforts on improving the global financial system. At the same time, during regulation of improvements to the financial market[31], results of FSF activities were actively used by some regulators of the financial market. By our estimations, the FSF has become the most effective organ among all international organizations which deal with the development of the financial markets. This is why we predicted an eminence of this organ in a post-crisis financial architecture[32].

The decision at the London Summit to include all members of the G20 within the structure of the FSF shows of that G20 considers the FSF as the most convenient platform for the continuation of G20 processes in a post-crisis word when, probably, no necessity of an extreme nature will be required in the G20 process.

The inclusion of Spain, which was not an original member of the G20, but played an active role in the course of discussions and preparation of decisions for the London Summit in the structuring of the FSF, attracts attention. This example shows that the FSF is not a *closed club*, and continues to remain a club of the most initiative participants in the international process of generating advanced practices in world financial markets and preparing proposals in modifying their architecture. Therefore, those countries which have not been invited in the G20, but continue to participate in the international process of development of decisions actively, can count on inclusion in the FSF in the near future.

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29 At the same moment, the 5 countries have 1 representative (Australia, Holland and Switzerland are represented by their National banks, and Hong Kong and Singapore by their money regulators), and the other 7 countries have 3representative each (Canada, France, Germany, Italy, Japan, UK, USA are each represented by their National banks, financial market regulators and Finance Ministries).

30 The arbitrary symbols: CPCS – Committee on Payment and Settlement Systems of the Bank for International Settlements; BCBS – Basel Committee on Bank Supervision of the Bank for International Settlements; IAIS - International Association of Insurance Supervisors.

31 See as example: The Efficient Capital Market: Economic Liberalism and State Governance. / edited by I.V. Kostikov: in 2 Volumes. – Moscow: Nauka, 2004.

32 The Future World Financial Architecture and the Place of Russia in it. Materials of the Round Table. - M.: TSRFR, 2009. P. 23.

The closest cooperation between the FSF and the IMF can be examined. There are several areas where these institutions will operate together, naturally supplementing each other, including, as noted earlier, in the Declaration on Strengthening the Financial System:

- Developing the international basis for arrangements on resolution of conflicts with the participation of international banks;
- Carrying out of actions for the early prevention.

There is an opinion that has spontaneously developed within the expert community that a sheaf *FSF – IMF* will operate at the global level as a classic sheaf of *national* regulator and supervisory organ. However, as it is represented, interaction of these two organs will be much more sophisticated than a classical national scheme. The complexity and intensity of interaction of these two organs will inevitably lead to conflict situations that will demand to specify functions and a role of both organs in international regulation and oversight of financial markets in the following areas.

Along with areas in which bolstering the interaction of international financial organizations is inevitable, there are also rather large *fields* on which these organizations, first of all the IMF, will have a possibility to implement rather independent actions. The IMF is almost completely responsible for such directives as increasing global liquidity (including overcoming of crises of balance of payments) and the realization of preferential crediting for countries with low income levels.

According to the decisions of the London Summit, the volume of financial resources which the IMF has will essentially increase. The increase of financial power of the IMF combined with some inefficiencies of its activity in previous years naturally raised the question about IMF reform. Such reform was declared in working materials and solutions of the G20, however, in reality it was reduced basically to the expansion of ways of financing the fund. Besides, appeals to organize employee responsibilities, heads and Board of Governors of the fund with peak efficiency, optimize distribution of official duties, to provide transparent reporting and estimation of activities, and also a more intensive and involved Board of Governors of the fund were provided in its work.

Also the cooperation of the FSF with the Basel Committee of Bank Supervision and the Bank of International Settlements will be intensive. Firstly, such cooperation in a number of areas is directly provided by the solutions of the summit in London. Secondly, the FSF traditionally assigns part to the CBS BIS a leading role in the decision of many key problems in the modern financial system. Thirdly, in the sphere of *competence* of this committee, there were essential market *failures* about its overcoming, in which, had already been conceived by the world expert community.

According to the solutions of the summit in London there was a strengthening of some other development institutions, with exception of the IMF. The solution to increase the capital of the Asian Bank of Development (by 200%) and to consider possibilities of an increase in the capital of the Inter-American Bank of Development, the African Bank of Development and the European Bank for Reconstruction and Development was accepted. As it is represented, these institutes will, as earlier, continue to play the same role in international finance.

Supranational Control and Supranational Oversight (Example of Europe)

In the European Union the process of financial integration has been taking place for a long time in the form of legal harmonization. Besides, the acceptance of the all-European legislative directives, in one form or another, are obligatory to implementation by all EU member states. Instructions, apart from which directly concern questions of the regulation of the financial sector, became a major requirement of the integration process.

The process of integration regarding regulation and supervision of the financial sector of Europe entered a new phase after a publication by Alexander Lamfalussy the report *on the Regulation of European Securities Markets*[33], prepared in accordance with decisions by The European Economic and Financial Affairs Council (ECOFIN). The report made such a strong impact on all subsequent developments in EU financial regulation that the process of integration, regulation and supervision of the financial sector was subsequently named as the Lamfalussy process.

The crisis between the years 2007-2009 revealed a necessity of updating and accelerating the process. In the de Larosiere report and conclusion, the system of general recommendations developed at the 3rd level of Committees as part of the Lamfalussy process, owing to insufficient powers of such committees, appeared incapable to provide uniform approaches to the regulation and supervision of EU Members. Thereupon, the de Larosiere report recommended rejecting the fastening of legislative norms at levels of the EU that were assumed

[33] *Final Report of the Committee of Wise Men on the Regulation of European Securities Markets – Brussels, 15 February 2001.*

inconsistent and did not have uniform transpositions in national legislation, and also, the report recommended revealing and eliminating contradictions in regulations that interfered with the development of a uniform market in the EU.

Authors of the de Larosiere report cautiously researched the problem of the formation of regulatory and supervisory systems in the financial market of all-European bodies. When there was a doubt in the expediency in the creation of such bodies the report recommended abstaining from their formation. In particular, the report directs attention to the creation of a uniform system of crisis-management that includes subsystems in macro-prudential oversight and a system of micro-prudential oversight at the level of the EU. Having considered the pluses and the minuses of the creation of the system for both macro - and micro - prudential supervision on the basis of the European Central Bank (ECB), the de Larosiere Group came to the conclusion about the expediency of strengthening of the role of ECB as a basis for a system of macro-prudential supervision, and inexpediency of the organization of a supranational micro-prudential supervision also on the basis of the ECB.

As a result of the conclusion regarding the decision of expediency, the creation of a new supervisory body, the EU- European Systemic Risk Council (ESRC) was accepted. The ESRC should be created under the aegis of the ECB and with organizational support; the head of ECB should be the Chairman of the ESRC. The ESRC should include members of a general council of the ECB, a member of the European Commission and Chairmen of 3 pro-European institutes – The Committees for Bank and Insurance Supervision (BCEBS and CEIOPS) and the Committee of European Bodies of Regulation of the Securities Markets (CESR).

Gathering and analyzing information regarding macro-prudential risk and threats of financial stability in all sectors of the financial system will be the task of this body. As part of the ESRC with the support of the European Committee for the Economy and Finance (EFC) an early warning system with regard to risk should be created. Preventing vulnerabilities in obtaining risk in the financial system corresponding with regulatory bodies of EU Member States should be accepted without fail, correcting actions as a result of activities of the ESRC.

The analysis of the existing system of interaction of European bodies of regulation, based on the work of 3 European consulting institutions – the Committee for Bank and Insurance Supervision (BCEBS and CEIOPS) and the Committee of European Bodies of Regulation of the Securities Markets (CESR), operating in the network of decisions of Lamfalussi's process on regulation of the 3rd level, showed that the power, structure and role of specified committees are insufficient for the maintenance of financial stability at the EU level, and at a separate level within the EU Member framework. Reform of the existing system is possible in the creation of a new European System of Financial Supervisors (ESFR) – the integrated and decentralized system of European bodies of financial oversight operating together with strengthened committees at the 3rd level. Existing national bodies of oversight/regulation in the network of the created system will continue their usual activities.

Committees of the 3rd level CEBS, CEIOPS and CESR should be transformed to the proxy bodies of supervision – the European Banking Authority (EBA); – the European Insurance Authority (EIA) and the European Securities Authority (ESA). Powers and the role of such managements should be essentially expanded in comparison with the existing committees.

The basic additional issues these bodies should solve are:

- Intermediation between national bodies of regulation and oversight, thus the decisions accepted by such management should be obligatory for national bodies of regulation;
- Working out and establishing uniform requirements of supervision;
- Acceptance of resolution and technical decisions concerning individual organizations;
- Supervision and coordination of work of joint bodies of supervision;
- Licensing and supervision for special pro-European institutions (for example, credit rating agencies and the organizations of settlement infrastructure);
- Interaction with ESRC for maintenance of the realisation of adequate macroprudential supervision and coordination of actions during crisis situations.

The ESFR has to be a structure, which is independent from the EU bodies, but accountable to them.

The ESFR will be created in 2 stages: 2009-2010 – a preparatory stage, 2011-2012 establishment of ESFR bases at the level of EU legislation.

Taking into account ESFR functions and its role in the financial regulation of European countries, it is possible to discuss the creation, at least within 2-3 years, of a high-grade supranational regulator of a uniform securities market in Europe. Herewith, in Europe, with a rising level of integration, the crisis has stimulated the formation of a high-grade supranational regulatory body.

CHAPTER 8. ANALYSIS OF THE INSTITUTE: THE ROLE OF INDIVIDUAL NATIONS IN THE G20 DECISION MAKING

Discussion Leaders

The conducted analysis of the G20 documents let us make a conclusion that the USA and the countries of Europe have played a leading role in the G20 London Summit decision making process and the G20 discussions. Meanwhile, the positions of the USA and Europe essentially differed in a number of cases. Such differences were caused by two factors: 1) distinction of national interests of the USA and the countries of Europe on a number of corresponding positions; 2) various approaches to the resolution of internal problems of the USA and Europe coursed by the financial and economic crisis.

Such distinctions should not be reduced to the distinctions of the Anglo-Saxon law and the Continental law no less than to distinctions of the models of financial systems in the USA and in the countries of Europe, they are much more connected with approaches to the decision of the intra-national problems, first of all, the problems of national economies.

It is necessary to notice that in the G20 discussions the countries of Europe have acted practically as a united front, having leaned on the principles and documents developed for the European Union. In other words, during the discussions of the G20 the European countries promoted a set of common interests which can be called the national interests of a unified country named Europe. Therefore the distinction of approaches of the USA and Europe was appreciably based on distinction of the approaches to the decision of problems in the national economy of the USA and to the decision of problems in a united *national* economy of Europe.

In the USA, the plan for financial stability was developed to struggle against the crisis at the national level (further – PFS), named also as the Geithner Program after Timothi Geithner, who is the secretary of the US Treasury (i.e. the analogue of the Ministry of Finance). This Plan was developed in common by the efforts of the US Treasury, the Federal Reserve System, the Federal Corporation of Insurance Deposits, the Federal Office of Supervision of Savings Associations, and the Financial Inspection of Currency Regulation.

Estimating the American intra-economic policy in whole, it is necessary to underline its salient financial orientation – the considerable amount of state resources is directed not only on the purpose of the replenishment of liquidity of the financial organizations that also for the resolution of problems of debtors and for other purposes (corporate and private). Perfection of internal regulation of the financial sector took a back-seat role in the national program of the USA.

However, in comparison to Europe, the USA has introduced some elements in the regulation of the financial sector, not realized in Europe, but offered by some European countries within the European union, and (in the G20 discussions) at the global level. There are more than enought examples of more rigid and more effective financial regulation in the USA in comparison with Europe – it is sufficient to name only more rigid rules on regulation of information disclosure, corporate governance, regulation of activities of credit rating agencies, etc. Therefore for the USA, these European proposals appeared in some part to be irrelevant, for the USA it is more important to hold the leading position in defining and realizing the world financial order.

As a result, the G20 decisions were based on proposals originating from the Europeans considering as it wasn't paradoxical, the American experience of national financial regulation.

Special Positions of Countries

Among other member-countries of the G20, Australia and Russia took the initiative and presented their own institutionalized documents.

Australia prepared a report on the causes and determinants of the credit-mortgage crisis, which became the forerunner of the global financial crisis[34].

This report differs from others, first of all, because it is based on the indepth analysis of the reasons and future prospects of the current crisis, and because it considers the potential effects of *spreading* the crisis worldwide, in particular, the crisis' influence on emerging markets and markets with neo-industrial economies. The report presents the chronology of expansion of the credit-mortgage crisis, analysis of its prerequisites and consequences (the basic problems which resulted this crisis are called) for countries with developed economies

[34] *The G20 Study Group Report on Global Credit Market Disruptions, prepared by Australia.*

and for countries with emerging markets. (The problems of countries with emerging markets presented in the report are available in the expanded version of the report on the web-site of the Institute) were predictable. From all the documents prepared as result of the G20 discussions, it is a unique one, in which, the distinctions between developed and developing economies regarding such problems, which rose before them as a result of the crisis, are so obviously explained.

Russia was one of the countries of the G20, which presented a separate formalized paper with proposals to the summit of the G20 in London. In these proposals, a list of principles on which, according to Russia's point of view, a new international architecture of financial relations should be constructed is presented, including:

- Compatibility of activity and the harmonization of standards of the national and international institutions of regulation;
- Democracy and uniform responsibility for the decision making process;
- Achievement of efficiency on the basis of the legitimacy of mechanisms of international coordination;
- Transparency of the activities of all participants;
- Fair distribution of risks.

After analyzing this list, it becomes evident that Russia has developed its proposals somewhat in separation from the general directions of discussions in the network of the G20. With the basic directions of the discussion of the G20, only two offered suggestions coincided: compatibility of standards of national and international institutions of regulation and the transparency of activities of the participants. Partly, the principle of fair distribution of risks coincides with the basic directions of the discussion of the G20 but it is too abstract a formulation that permits to treat this principle otherwise, rather than in the same direction of discussions of the G20.

At the same time, Russia's position attempts to place, in the agenda of the G20 discussions, a wide range of questions noting, not only the problems relating of the necessity to instill reaction to find failures in market and market regulation, but also, deeper problems connected with the necessity of a fairer redistribution of rights and powers on a global scale is visible.

The proposals offered by Russia on the modernization of financial regulation itself, being much closer to the specific proposals developed during the collective discussions, at the same time, are also focused on a wider range of questions in the formation of a future financial order in the world, and also on the account of the interests of developing countries and markets with acceptance of global decisions. These proposals are displayed in 4 directions:

1. An increase in legitimacy and productivity of international institutions of regulation on a new conventional basis with a view of maintenance in compatibility of economic strategy of separate countries.
2. Strengthening the stability of the world financial system by the development of a diversified system of reserve currencies and financial centers.
3. Formation of a modern control system for risk and adequate degree of development of financial technologies.
4. Formation of a system of stimulus to rational behavior of participants in financial markets, based on a balanced estimation of risk and an estimation of received possibilities.

It is necessary to pay special attention to one of the directions regarding the strengthening of the stability of a world financial system, thus, according to Russia's point of view; such stability is connected with an increase in the quantity of reserve currencies and international financial centers. It is clear to us it is rather important to take into account those fundamental contradictions, which surfaced in the world financial system and in the global economy as a whole.

The list of concrete measures offered by Russia includes:

1. Regulation of macroeconomic and budgetary policy.
2. Stimulation of internal demand during the crisis.
3. Regulation and supervision.

Among the concrete measures in the perfection of regulation and supervision, Russia suggested to develop and accept an international agreement defining the global standards of regulation and supervision in the financial sector – Standard Universal Regulatory Framework (SURF) which would include:

- The OECD standards;
- Uniform standards in financial accounting (with additional research of the expediency of the uniform standards of business accounting);
- Uniform criteria in the definition of *unreliable* jurisdictions and their counter-measures;
- Rules of regular exchange of full information of financial institutions and transactions (including within the limits of supervisory boards);
- Imitation modeling of interaction of supervisory bodies in the conditions of a crisis;
- An account of national requirements as to the basic actives of reference of derivative tools in foreign markets;
- Standards of activities of credit rating agencies.

4. Reformation of the international currency system.
5. Reformation of international financial institutions.
6. Financing of development.
7. Financial literacy of populations.
8. The concept of energy efficient growth.

The concrete definition of measures in the network of these directions greatly pulls together the position of Russia with the *mainstream* of discussions that were being presented in the framework of the G20. At the same time, in the list of specific proposals are a number of measures which are beyond the agenda of these discussions, for example, on financial literacy of a population, which is a problem not only for Russia and other countries with developing financial markets, but also for countries with developed markets.

Such somewhat *perpendicularity* of Russia's position in relation to the basic direction of the discussions can be explained in two ways. On the one hand, Russian offers are not quite entered in the general course the of G20 discussions, which objectively reduces the role of Russia in the development of decisions in the course of G20 discussions. And on the other hand, Russia proposed problems ignored by the majority of the participants of the process of the G20, which are deeper in comparison with the average level of problems discussed in the frameworks of the G20 and which inevitably should be solved by mankind in general; to find answers to decisions on these problems, probably, it is more expedient outside of this process.

It is impossible to explain the orientation of Russia to more fundamental problems that were brought up as central issues of the G20, only national features of Russian character, in particular an aspiration to dream about the most important philosophical problems of the world. It is necessary to specify two reasons which are represented that influenced such an orientation in Russia's position. Firstly, not all questions of the agenda could have been formulated by the participants in the preparation of the position Russia took because of certain distorted (concerning universal directions of modern research) directions of research by the Russian expert community and the inaccessibility of some major proceedings at last years summit of Russian experts in view of their weak knowledge of foreign languages. Secondly, isolation of the position of Russia from the *mainstream* of discussions is a consequence of general concerns of weak participation of Russia in the discussion of problems that interest and excite the rest of the world, also, weak involvement of Russian representatives into the work bodies arranging such discussions[35].

It is also necessary to notice that the activity of Russia was showed exclusively in the preparation of a separate document containing the offers of the country. In the *collective creativity* in the network of the groups organized by the G20, the Russian representatives didn't show similar activity. They are self-isolated from working discussions, probably, because of the same reason — not able to speak in one language with the representatives of other countries of the world.

Thus, in the course of the G20 Russia preferred to play a role of *a single wild wolf*, loudly having proclaimed the position from outside, without actively joining in the community of countries conducting working discussions and developing joint decisions.

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[35] Thus, Russia being the shareholder of the Bank for International Settlements, has the right to actively participate in the administration of the BIS and the work of its institutions. But in reality Russia does not have representation in the control bodies of the BIS, its representatives have only in the status of observers. Russia, being member of the IOSCO, participates in the work of only 2 committees, the IOSCO of 6 (without considering the regional committee, in which it participates automatically), while other countries with large developing markets participate, as a rule, in the work of 5-6 committees. Reason for this inactive behavior of Russia - in the absence of state financing of expenditures for this work.

It is also necessary to pause separately on the active role of Spain which was not member of the G20, but took an active part in the discussions under the G20 agenda. Thus, unlike Russia, which presented its proposals and in some part was dispersed from the agenda of the G20, Spain's proposals were completely corresponding to this agenda. Russia tried to expand the agenda, offering questions which interested the country and many other countries that are not entering in so-called *golden billion*. Spain, having obeyed to the discipline and rules of the game of the G20, worked accurately in the torrent of passing discussions

Spain wielded 10 offers for consideration to the participants of the discussion both for *debates during the London Summit, and for subsequent discussions,* and for subsequent discussions, which appreciably corresponded to the positions of other countries (first of all Europe) but simultaneously contained new approaches in detailed elaboration of some measures (it is possible to familiarize with the Spanish proposals in the full version of the report on the web-site of the Institute).

Such a position found high appreciation among the other participants of the process. As a result, Spain was included in the structure of the Financial Stability Board (FSB), along with other members of the G20, never being formally a member of the G20.

Countries Weight Factors in the Global Discussion

At the beginning of the current Report we point to the allocation of leading reasons in the development of the main decisions of the London Summit between the US and the countries of Europe and concentrated on analyzing distinctions in their point of view. It is now necessary to define why only these countries played a leading part in the development of decisions infringing on the interests of all mankind. In our opinion it is caused firstly, by the role in the development of the global economy, which these countries play and secondly, by the presence of uniform values influencing the development of the progression of positions of countries in the course of international discussion. We have already noticed that the selection of questions for the G20 discussions was appreciably defined by a consensus among the leading countries of the world. It is easier for the USA and Europe to reach a consensus, having a number of general cultural bases in common; including moral values and religion, general sources of culture, legal and economic systems.

If we want to look at the problem wider, it is necessary to ask a question about a whole complex of factors defining the authority of separate countries in the global decision-making process. In our opinion, it is necessary to provide such factors.

- A country's share in world production and world capital.
- Affinity of national interests and positions to a global core of interests and positions, and also readiness of the global elite forming such a core for cooperation with this or that country.
- Activity of the country and novelty of its offers within the limits of global processes of development of decisions.

The first factor, unconditionally, is the most important, however not the only one. So, China, which shares in world production (at par buying power) comparable with that of the share of the US and Europe, practically does not influence the development of global decisions in any way. Unconditionally, the rather low role of China's share plays in cumulative world capital, but the influence of two other factors is more important.

The second factor reflects the presents of a non-economic force that belongs to the group of most developed countries that constitutes a uniform Western Christian civilization. They are consolidated by numerous general principles and interests that allow them to represent themselves as a united front in relation to other countries of the world. The unity of issues of these countries adds in weight, and in addition to that weight, it defines the proceedings on their role in the world economy. The degree of involvement of this or that country in this civilization is influenced by the weight of this group in the world.

Nowadays in the world it is possible to identify, at least, two other global populations – Arabic and Chinese. They remain closed and for this reason have not been actively involved in global processes as their Western Christian counterpart; however, the growing interests of these populations will require an increasing share in global decision-making relating to world production and capital.

The center of economic force of the world revolves around the East; also the centre of acceptance of global decisions will be objectively displaced in the same way. In this situation the countries laying on the fringe of West Christian civilization in relation to eastern civilizations, including Russia and Kazakhstan can receive certain additional weight.

The third factor is least influential, but nevertheless, more and more activity had been noticed in previous world discussions. Today, the role of the participation in global discussion depends on the value of its investment into world discussions, which can be defined by a novelty of proposals and their intellectual viability. Besides, activity of a country in collective discussions — in collective, instead of the active declaration of someone's position being separate from these discussions — lead to world recognition and an increased role of the country's world standing. Spain being included in structure of the FSB is an example.

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One of the basic conclusions of the analysis, which results are presented in the Part II, is the conclusion about the necessity for each country that has global interests to participate actively in global discussions and processes in the global decision making. For an increase in the role at a global level all countries need to consider the interests of other partners in the process of development of global decisions, to produce proposals at a highly professional level and to include innovative items into them. Initiation of the process of preparation and acceptance of global decisions will inevitably lead to a more complete account of interests, not only of the largest economies of the world, but also the interests, at a minimum, of the largest developing economies. It assumes an essential order of expansion of the G20 process, forecasting time lines during decision-making, and the account of cultural factors in the fundamental analysis of imbalance in a modern global financial system. This will be covered in the third part of this report.

CONCLUSIONS AND PROPOSITIONS

The world is enduring a crisis in the global organization of the system of supranational institutions. This is attested in low level of trust with the official institutions that are to be at the center of decision-making in world politics. The expert community evaluates possibilities in meeting the crisis and to produce new approaches to the financial architecture of the world within the limits of the United Nations, the IMF, the World Bank, and the OECD below an average. The world crisis had been developing since 2007. Up until now, neither the United Nations Economic Council, the Social Council of the United Nations, the IMF, the World Bank became the centers of the initiative of global decisions, and did not apply for this role.

Losing trust to old institutions of the 20th century has a number of consequences for the process in creating a new financial architecture.

- **The roles of individual states and governments increase the promotion of initiatives within the global discussion.** The big expectations are concentrated on China (no less than big fears), as a possible *reformer* of the world system. At the same time, among the potential *new heroes* – the largest states are placed in the *second echelon*. Signs of *new champions* are materializing through the success of implementing anti-recessionary measures and sharing in the initiative of global discussion.
- **Inquiries about new types of world institutions are formed.** The process of creating a new financial architecture has today left the area of G20 discussions. In the area of the Financial Stability Forum, it is the first new type of international institution created: The Financial Stability Board (FSB) which in the long term, can become the main center of innovation. For the first time attention to reforming the IMF is demonstrated.
- **There is a general question about updating the principles of communication and decision-making.** The search of new *formats* of interaction in the post-crisis world is a work in progress. Today's formats can be varied: formal and informal, global and regional. Countries of which become the centers of generating initiatives will be included as active members in the future.

Thus, the expert community is not ready to allocate trust for a mandate to seek an *architect of a new world* through any of the existing global supranational institutes. The risk of crisis in global formats of interaction is increasing; in this case the initiative will pass to regional platforms.

In further developments, three scenarios can be seen:

- **Evolutionary:** gradual reforming of global institutes according to a new ideology. The G20 can act as a *reformer*;
- **Revolutionary:** decentralization of decision-making with initiative transition to regional centers, dismantling of the former global architecture and a landslide transition in the multipolar world;
- **Forum of Nations:** the preparation of a wide and proximal international conference for acceptance of obligatory decisions of all participants (by analogy to Bretton Woods).

Currently a considerable portion of the expert community is focused on the evolutionary path.

The IMF and the World Bank were created in 1944, the United Nations Organization was created in 1945 and the OECD was created in 1948. Since then, their mandates did not vary considerably and now they reflect a picture of the world of the last century, they are not directed for innovation. Probably, the process of the G20 will lead the reform of these organizations, sooner or later.

Experts put forward the following claims regarding the IMF:

- Non-observance of balance between developed and developing countries;
- An inefficiency in the expenditure of means;
- Closeness in decision-making;
- Insufficiency of resources for the solution global problems;
- Backlog from a quickly developing agenda;
- Out-of-date economic ideology.

Herewith, the IMF reform cannot be reduced to the redistribution of quotas. The formal increase in the roles of China, Russia, and other states in the IMF will solve only part of problems. New maintenance of organizational tasks and new principles of efficiency are required

The restrictions of United Nations are becoming obvious. In the Charter of the United Nations the prevention of wars is specified as its main mandate. In today's conditions of fast redistribution of balances in the world, the threat of conflicts and collisions of interests are accruing. Unfortunately, the agenda of the United Nations and a work format lag behind 21st century calls.

In the first 20 to 30 years of the 21st century the League of the Nations could not execute its main role: to prevent world conflict and war. Today's credibility of world institutions toward the crisis is a dangerous symptom. The old institutions are helpless to cope with 21st century issues. They should be reformed in order to advance the situation.

PROPOSALS

- Transformation of Financial Stability Board (FSB) into a proxy headquarter for financial reforms.
- Creation of an open format of the FSB to work in conjunction of those states out of G20 that have initiatives.
- Development of a consensus platform on reforming the world currency system on the basis of FSB.
- Entering into an agenda with the G20 process of decisions on concrete measures into reforming the IMF. An extensive discussion of ideology and a reform program.

PART III

THE FINANCIAL ARCHITECTURE OF THE POST-CRISIS WORLD: PROBLEMS AND ROLES OF DEVELOPING COUNTRIES

CHAPTER 9. AN EXPERT LOOK: THE G20 SUMMIT AND THE INTERESTS OF DEVELOPING ECONOMIES

The consideration of interests and needs of *young* industrialized and poor countries while taking the G20 London Summit decisions is the topic that provokes the participants of our survey to maximally clear voice their positions and most clearly demonstrates the diffences in views within the expert communities of developed and developing countries.

In the Mainstream

One of the most important questions, that the experts have been asked to answer, was: **"Which G20 Summit solutions can serve the interests of new developing economies?"**

Two thirds of the survey participants assume that there are such solutions and the other third is predisposed pessimistically (Diagram 19A). The experts answers to this question, as one would expect, demonstrate clear differences in the trends of opinions (Diagram 19B). The representatives of developed countries are inclined to interpret the results of the summit precisely in the context of providing aid to developing economies, while the representatives of these economies themselves have much more critically evaluated the results of the summit in this section. In this case the Russians prove to be the most critical: more than half of participants from Russia has given a negative answer to this question.

Diagram 19A

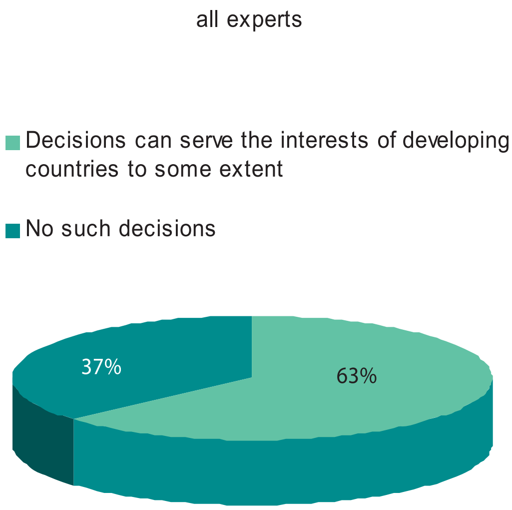
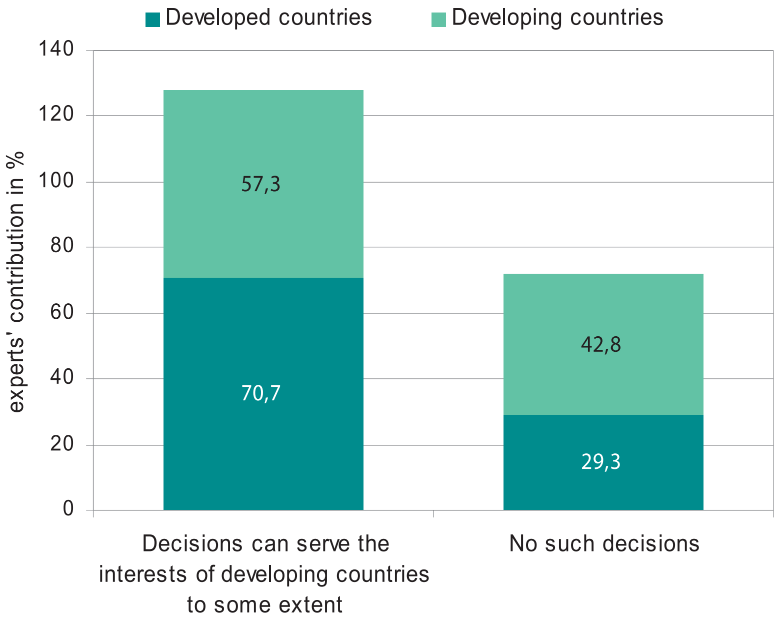


Diagram 19B



The part of the optimistically inclined experts continues to develop the theme about the fact that the very expansion of the size of the summit of state leaders to the number of 20 is already an undisputable achievement of developing economies.

> **Jaime Pozuelo-Monfort, Spain, Financial Economist:** *"The West incorporates the representative power of certain emerging countries to the decision making process that rules today's capitalism."*

Another part lays emphasis in the fact that any anti-crisis solutions of the summit, which facilitate the output of the world economy away from the crisis, are in the interests of all countries, including developing. This, as it is not difficult to surmise, accounts for a majority of representatives of countries, who are the traditional leaders of the financial market.

> **Paul Davidson, USA, Editor, Journal of Post Keynesian Economics, Professor of Economics, Bernard Schwartz Center for Economic Policy Analysis, The New School:** *"Any decisions, that will lead to economic growth, even for a short period of time, will be useful for emerging countries as well all other countries."*

Quite rarely experts note that the interests of developing economies will contribute to undertaken steps on the standardization of financial markets, especially measures for the limitation of protectionism, and there are those that speak entirely about the redistribution of quotas and voices in leading international financial institutes and the like.

Gikas A. Hardouvelis, Greece, Chief Economist of Eurobank EFG: *"The decisions to resist protectionism are of particular importance since most developing countries depend on developed economies and their open markets."*

In some of the opinions, these unambiguously positive solutions in favor of those are developing states, at least, useful measures under the conditions of a crisis. Among the supporters of this point of view are a majority of representatives from developed countries.

Colin I. Bradford, USA, Brookings Institute, Nonresident Senior Fellow, Global Economy and Development, Former Chief Economist at the U.S. Agency for International Development: *"Absolutely! More can be done exclusively for the developing countries but I think certainly the expansionary moves that were taken benefit global growth including the developing countries. The financial regulatory reforms are designed to prevent the next crisis. That is another measure that favors, that helps developing countries, indirectly. The IMF has been provided with the additional funding that is a substantial sum. That will help developing countries. And there is going to be an additional effort to enhance the resources of the World Bank, the resources of the Development banks and other institutions. I think it needs to be pushed a little bit further in relations with developing countries than has so far. They need to become concrete and become specific and become more real in terms of the real resource flows. But I think in general what the G20 did was beneficial for the developing countries for sure."*

Overboard

Another part of the experts doubt the usefulness of this step for the developing economies, examining it in the paradigm of *unfit tools*. It is also assumed that this aid in reality can be wrapped up by a unique *trap* in view of a pro-American policy of the IMF, or the allocated resources simply will not reach the required destination. With an assignment of large resources and the authorities of the IMF, without a necessary reorganization of this institution, the result will continue to undermine the interests of developing countries.

Paolo Raimondi, Italy, Economist, Economic Journalist: *"No, so far the developing countries are not at the center of the debate. The fact is that the IMF is given more resources and power without any fundamental structural and philosophical change inside, but the policy has not changed. And the IMF policy in the past years has been detrimental to the developing countries interests and development. The same IMF economists and leaders responsible for the past incompetent decisions are the same persons that did not see the crisis coming and cannot be the leaders of a new economic system."*

A considerable proportion of the participants in the survey, among whom were many representatives of the countries of the post-Soviet space, emphasized that all agreements reached at the summit worked only for the interests of developed countries, especially for the USA, and they have not answered and have not met the true needs of the *new economies*. Experts repeatedly indicated to the fact that the solutions of the summit were not reflected in the entire group of questions, which were concerned in increasing the competitive advantages of developed countries and the leveling off the rules of the game in world markets - lightening exporting to the markets of developed countries, removal of existing limitations on trade and import of technologies and the like.

Sergey Grisyuk, Kazakhstan, Chairman of the Board of Directors of the Arktageiya Holding, Chairman of the Board of Administration of the Aspandau Foundation for Research and Education: *"Analyzing final documents, involuntarily you come to the conclusion that the leaders of the G20 are not interested in the appearance of "new economies". The badly hidden desire to regulate all and everything, to control, to redistribute at every turn is revealed; in a word, to hold and not to let."*

Principally the London Summit results perception of the expert community in the context of benefits for developing countries is again abutted against a question of confidence. The divergence of the views of the representatives of *old* and *new* industrial countries is completely predicted, but against one's will some analogues with the "American aid" in a game preference or with the perception by the adolescents of parental councils for type *they do not understand, what is really necessary to me, arises.*

The representatives of the developing countries have repeatedly appealed to the active policy of the *old* elites (and first of all, of the USA) on the retention of the existing status quo and the practice of double standards. But the representatives of developed countries to a certain degree demonstrate a superiority complex, according to the type *say thanks that we allow you to sit at one table with the adults*. Very significant, in particular, is one of the opinions concerning the reformation of the system of decision making in the IMF: to enlarge the *admittance* of developing countries is dangerous, since they, as a rule, suffer from the absence of responsible policy and can use their increased influence for taking decisions to their own vested interests and to the detriment of the interests of the world community.

Nevertheless, it is also obvious that in this case the discussion deals not so much with *the claims* to a single concrete meeting of the G20 leaders, but to the current situation in the world financial and economic area as a whole. The developing countries are interested in equalizing the rules of the game on world markets and in reducing the limitations of trade and the like, but until today they have never obtained any reaction to their demands. Therefore the following question for them today remains: how the new industrial countries are to be integrated into the new world economy in order to be capable of properly competing on this platform.

Zahra KarimI Moughari, Iran, Research Fellow, Academic Staff, University of Mazandaran: *"While there were representatives from developing countries (Brazil, SaudI Arabia, etc) in the G20 Summit, and there is increasing understanding that the world problems can not be solved without close cooperation between North and South, it seems that developing world is still on the roadside of the discussion about the new world financial system."*

CHAPTER 10. NEW FINANCIAL GEOGRAPHY: EXPERT OPINIONS

The acknowledgment of the growing influence of developing countries on the decision-making process on issues concerning the world economy and financial system logically brings us to the following theme. If, as many gurus of contemporary economic thought assert, the center of economic growth does displace from the West to the East and the role of super-powers in the world system of political and economic relations is gradually reducing, then will this be reflected in the *financial geography* of the future world?

Today, many countries demonstrate an interest in the creation of zonal or at least regional financial centers on their territories. And the countries where this has already been arranged, will not part from their ambitions to convert them into international centers.

Will any alternatives for the *old* global financial centers (New York, London, Tokyo) appear, will new zonal centers be able to press the company of Singapore, Hong Kong, Paris and Frankfurt, will new regional centers arrive which, in the course of time, can enjoy the status of the leading centers? The opinions of the representatives of the expert community on this question was also an object of the present investigation.

New World Financial Centers

The fundamental approaches to the question **"Can new financial centers arise in the world, and what would be their scale and regional, state or niche specifics?"** can be divided into three basic categories (Diagram 20A).

The overwhelming majority of experts consider that new financial centers will appear (about 80% of the survey participants insisted on their appearance). The appearance of such a center in China is most expected according to the experts. Far behind are the other BRIC countries (Russia, India and Brazil), among more rarely mentioned are the Middle East, Southeast Asia, Central and Eastern Europe (countries of the European Union) and other regions of possible locations.

However, in a question of scale and specific stature of these centers, the survey participants are divided into two unbalanced groups, both according to the number and the composition. A fifth of the experts assume that new financial centers have a chance to become serious players at the international level and to position themselves alongside York and London. In this case, the representatives of the developing countries are less sure (Diagram 20B).

Diagram 20A

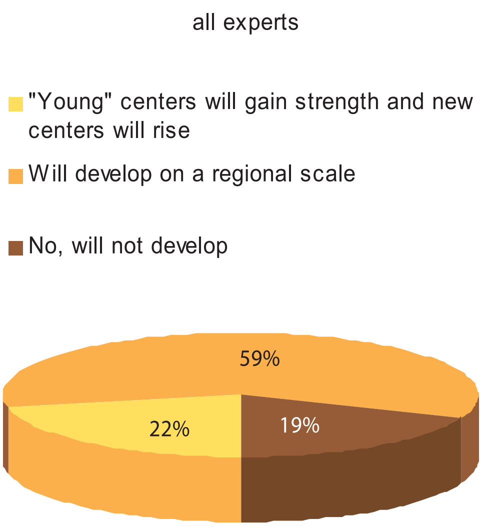
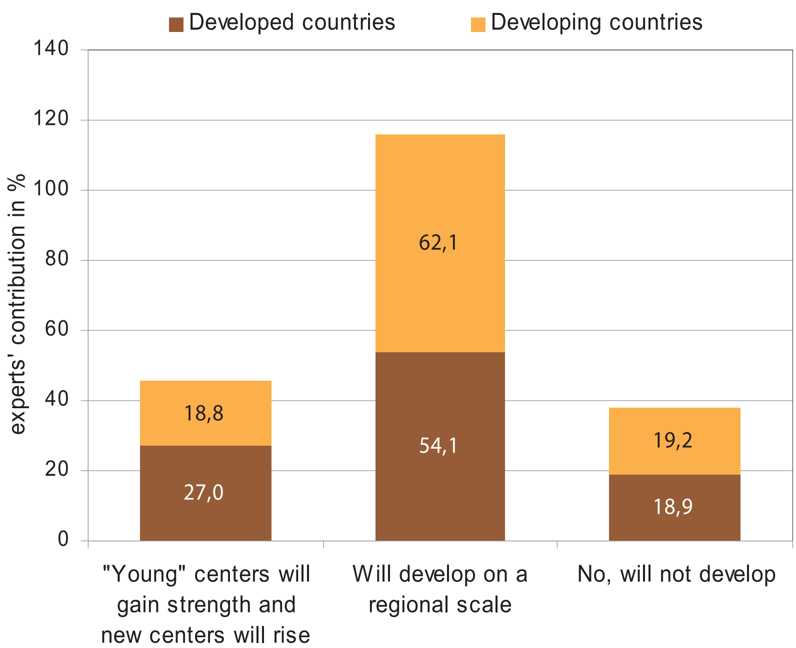


Diagram 20B



Roland Nash, UK, Chief, Analytical Department Renaissance Capital: *"I think that a global financial system has changed irrefutable and it will in the future reflect much more the relative size of economies szstem. And that means that it wouldn't be just London and New York as two major financial centers with Tokyo and Hong Kong as secondary financial centers, there would be more financial power shifting to other economic centers, away from the developed world towards the developing world. So, yes, I think there is every chance that new financial centers will develop."*

A large part of the experts from this group count on already existing *young* regional financial centerst, in the first place, which will strengthen their positions and grow beyond the national borders as a result of the capital overflow, strengthening of regional reserve currencies, economic strengthening of certain countries (Singapore, Hong Kong, Dubai, Shanghai) and so forth. The other part of the expects expects the appearance of completely new centers, which can later acquire a global status (in Eastern Europe, India, countries of Southern Africa, Brazil and Mexico).

More than half of all experts (including many examples of developing countries) assume the appearance of a number of new and strengthening current secondary financial centers, but in this case they consider that the scale of these centers will remain regional, or their national or niche stature will be significantly narrow.

Roberta Rodrigues da Silva, Brazil, Professor of Economics, Brazilian Institute of the Capital Market: *"I believe that in the next few decades we will see the rise of new global financial centers, especially the ones that are joined under the rubric "BRIC" – Brazil, Russia, India and China –, as well as the European Union. I think China may turn into a global power – not only in the economic realm, but in the political realm as well – which brings into question the viability of the occidental-style of conducting the decision making process. I do not see a "great power" China as an ally of the United States, but as a rival. Anyway, if that "great power China" becomes a reality, it will be only in the long run. In the short run (or in the medium run) I believe the "BRIC" will play a minor role in the global scale – at least if compared to the United States -, but a major one in the regional scale. They are likely to become regional financial centers."*

Moreover, a number of participants in the survey are precisely assured that the regionalization of the financial system is the most natural outcome or optimum vector of development under the conditions of the global crisis.

Ngaire Woods, UK, Professor of Economics, Oxford University, Director of the Global Economic Governance Programme: *"I can see two possible scenarios. One scenario is that we see effective global financial regulation put in place. And then we will see the rise of the new financial centers. But the other scenario is that all the efforts to introduce global financial regulation fail and banking sector withdraw to national boundaries. And banking becomes a much more national and a much less global activity. And then there will not be new global financial centers."*

Only less than a fifth of the participants in our survey do not believe in the possibility of the appearance of new financial centers, since they do not see sufficient *economic engine* required for that (also because of reduction in financial activities as a whole) or sufficient *entry conditions*.

Mikka D. Pineda, USA, Lead Analyst for Markets, Monetary Policy and Asia, RoubinI Global Economics LLC: *"UAE, Qatar and Bahrain are competing to become the Middle East's regional financial hub – as well as the hub of Islamic Finance. Singapore, Hong Kong and Seoul are competing to become Asia's regional financial hub. None of these countries are likely to become the world's most important financial centers in the near future though. They lack the infrastructure, technology, regulatory oversight, rule of law, rational bureaucracy, and market liquidity required to overtake the US/UK and handle most of the world's investment transactions. The world's most popular investment products are still sold in the US and UK and the largest exchanges still operate in the US and UK."*

Financial Centers in the Post-Soviet Countries

Prospects of Russia

The development and strengthening of the financial market and an increase in its attractiveness for the economies of neighboring countries are some of the urgent tasks in Russia. This year, the government of Russia committed to a five year concept of creating an international financial center in the Russian Federation. Therefore the prospect of creating the international financial center in our country was a separate interest for us.

Within the framework of the study we posed our participants the following questions: **"Will Russia be one of the new financial centers?", "How much influence will the Ruble hold internationally in the future?"**
The distribution of opinions on this question of our multinational expert pool is represented in the Diagram 21A.

Diagram 21A

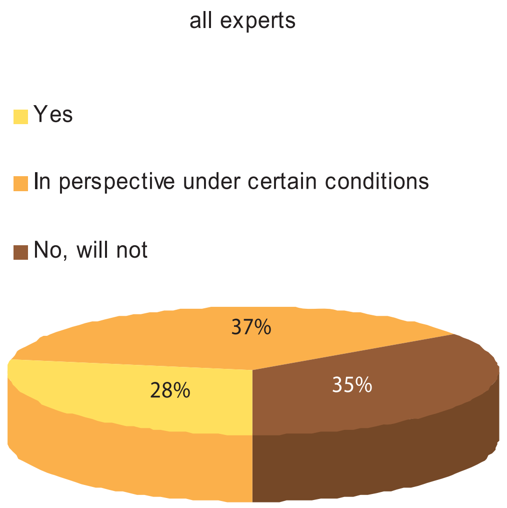
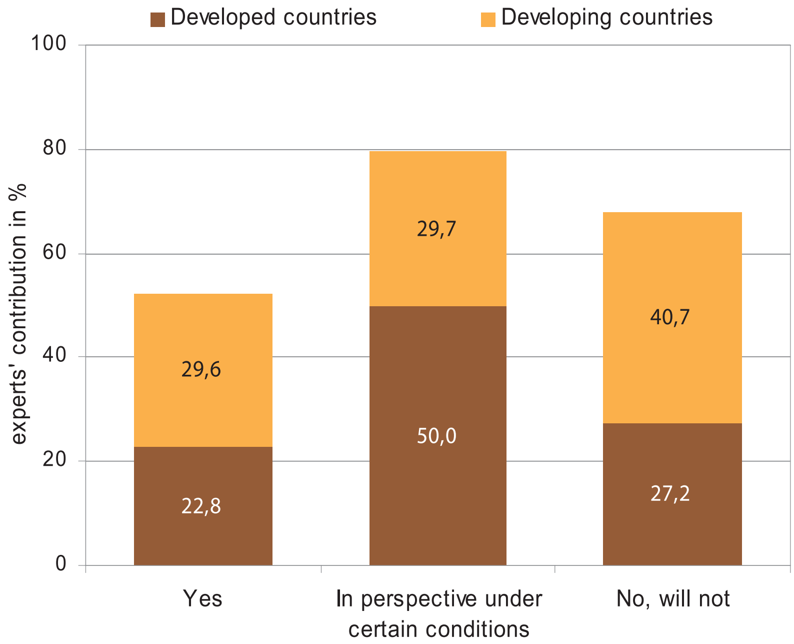


Diagram 21B



Only more than a fourth of the survey participants expressed confidence in the fact that Russia will enjoy the appearance of this center on its territory, and the ruble will be included in the basket of currencies of the new world currency system. It is interesting to note that although this group is somewhat more representative of developing countries (Diagram 21B), there are almost no experts from Russia who show optimism in this question.

Rodrigo Mallea, Argentina, Director of Diagnostico Politico: *"Russia indeed has the potential of becoming a global financial center. It is a very important global player in the military/strategic aspect, and its rich natural resources added up to its population and territory aim that this will eventually happen. The ruble has yet to establish a clear influence in central and eastern Europe and counterbalance the euro."*

The most numerous group, more than third, assume that Russia has an exceptionally great chance to become a financial center on a regional scale on the post-Soviet space either within the framework of the Eurasian Economic Community (EurAsEC) or the ShanghaI Cooperation Organization (SCO). Accordingly, a maximum possible prospects for the ruble is a status of a regional reserve currency (a payment unit within the CIS). Among this group there are many experts from developing countries.

Nirvikar Singh, USA, Professor of Economics and Co-Director of the Center for Global, International and Regional Studies at the University of California, Santa Cruz: *"I think the Ruble faces the same problem as the Yuan and the Rupee. I think the domestic political and financial institutions are not strong enough yet. So that will really make it limited to become a global currency. I mean it may still serve as a regional currency because Russia obviously has regional power, I mean it is very important for all the countries of the former Soviet Union."*

In this case, in the opinion of our experts, it is necessary for Russia to observe a whole series of conditions in order to become this center. Over the long five-year term some of these conditions are completely, in our opinion, feasible. Others, it seems, move aside the possibility of forming a valuable international finance center on this territory for a much more prolonged period.

- Guarantee of macroeconomic stability.
- Reduction of dependance on natural resources, diversification of the economy, modernization of financial institutions, etc.

- And on the contrary - the conversion of payments for energy supplies into rubles.
- Creation of a favorable business environment: reduction in corruption, judicial reform, optimization of corporate governance and the like.
- The presence of political will for the formation of a purposeful policy aimed at promotion of this idea and for the creation of favorable conditions for international capital.

Sanjay Sharma, Netherlands, Strategy Advisor of "Emerging Asia" Company: *"The Russian Federation has always had the potential to be one of the major hubs of finance; the need of the hour is to ensure that the political economy of the country is conducive to that growth and change."*

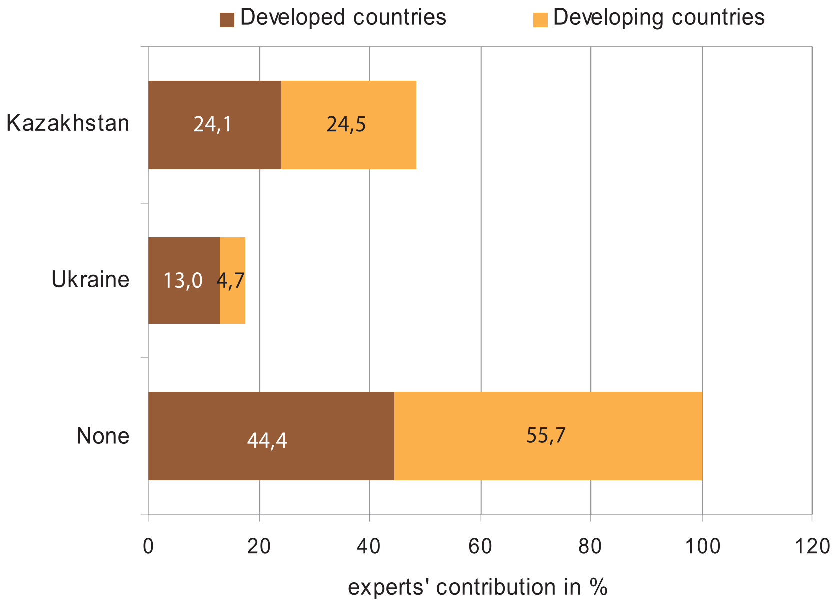
And finally, a little more than third of all survey participants was very pessimistic concerning the possibilities to change the prevailing restrictive conditions in Russia, and therefore they do not see real prospects for creating an international financial center in Russia. Among this group the representatives of the Russian expert community predominate.

Prospects of Other Countries

With respect to **other post-Soviet countries capable, together with Russia, to aspire the role of future financial centers**, the majority of experts considered that either, as already mentioned above, o such a center can arise in the territory of the former USSR in principle, or they do not see any other aspirants in the same weight category as Moscow (Diagram 22).

Only a little more than one fourth of all experts consider similar prospects. Actually Kazakhstan, besides Russia, is the only post-Soviet country, which, in the expert's opinion, can over the long term enjoy the role of a regional financial center. In rare cases, together with Kazakhstan, participants in the survey mentioned Ukraine.

Diagram 22



James Conway, Australia, Financial Analyst, BHP Billiton: *"No one of the post-Soviet states has a potential for a status of world financial hubs, but Kazakhstan and potentially the Ukraine have not bad chances to become regional financial hubs."*

Thus, the financial architecture of the world, in the opinion of the participants of our survey gradually changes, also, in the future it will, to a greater extent, reflect the specific weight of the economies within the world system. The expert community is waiting for the development of new financial *hubs* in proportion to strengthening individual states and creating regional blocks, coalitions and unions. Financial power will displace other economic centers from developed countries - into those currently developing.

The majority of the experts are assured that a boom in the development of financial centers, even along the lines of local ones, would be limited by special regional features and a narrow field of specialization, which are necessary in new industrial centers. New centers will appear in India, South Africa, Brazil, Mexico, the Middle East – i.e. in those regions, which role in the world economy, in the opinion of participants in the survey, will continue to grow. Those countries that will strengthen their positions include: Singapore, Hong Kong, Dubai, and Shanghai. The first candidate in creating a new global financial center on its territory will be undoubtedly China, which in the course of time will be able to rival New York and London.

However, as far as the presence of entry conditions are concerned in creating a financial center in Russia, this, in the eyes of expert community is represented thus far as sufficiently doubtful. From one side, the growing power and the influence of the Russian Federation on the world level, and also strategic positions on the space of the CIS is undoubtedly a plus. On the other, much political will be required and long systematic work in order to overcome all the existing limitations of growth.

Only two other possible versions of a location of a future financial center are examined besides Russia in the post-Soviet space. This is Kazakhstan and Ukraine. However, the position of Ukraine in this respect appears to be considerably weaker.

The new financial *geography*, which reflects a more valid distribution of world financial flows already, is beginning to appear in the thoughts of the expert community. However, a sharp problem confronting the redistribution of world capital today not in favor of developing countries requires resolution of fundamental issues of global financial architecture, one of which being the world currency system.

CHAPTER 11. EXPERT OPINIONS: THE FUTURE OF THE WORLD CURRENCY SYSTEM

We consider the analysis of opinions of the expert community about the possible direction of change in the global currency system to be the most important part of this research.

We were interested, on one side, to know the forecasts of the expert community on the prospects of the US dollar as a world reserve currency and the most probable way the development of a new world currency system may come about.

From the other side, it was important for us to learn the opinions of the survey participants about those real initiatives, which were undertaken by individual countries, namely Chinese steps in the expansion of the use of the yuan in international trade and a proposal by Kazakhstan, China, Russia and South Korea to create a new type of the world currency.

Prospects of the Dollar

Approaching the question of the possible versions of the post-crisis global currency system architecture, we decided that it would be logically to begin with the assessment of the expert community of **the US dollar prospects as a world reserve currency.**

First of all we were interested in the expert ideas about the short and intermediate-term prospects of the dollar. Undoubtedly, one can believe that the interpretation of the fortitude of these temporary periods can strongly be distinguished. However, more important in our opinion, were the personal feelings of the experts with respect to the time frame of a possible future change.

Thus, it is possible to discuss three basic directions, around which are different points of view of experts are expressed (Diagram 23A). In this case the configuration of this directional distribution demonstrated almost complete unanimity in expert communities of developed and developing countries (Diagram 23B).

Diagram 23A

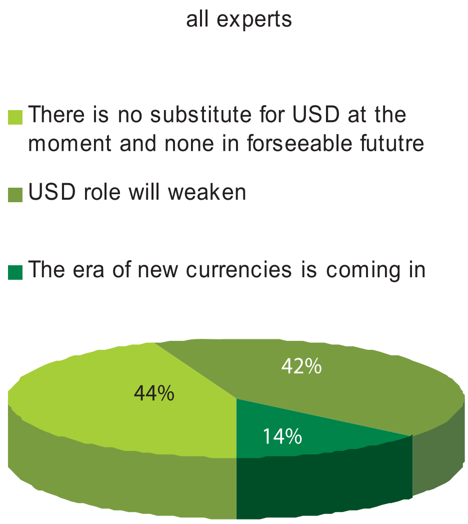
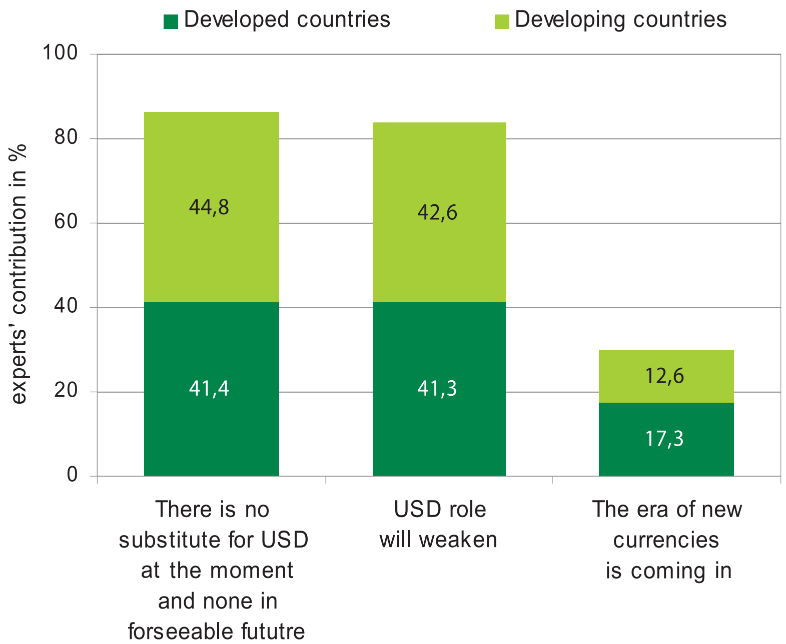


Diagram 23B



Vector 1. There is no replacement to the dollar in the foreseeable future. This is one of the two most popular positions (more than 40% of the experts).

Sebastian Mallaby, USA, Director, Center for Geoeconomic Studies, Senior Fellow for International Economics at the Council on Foreign Relations: *"The dollar will remain the reserve currency, for lack of an alternative. There will be debate about possible alternatives, but no action."*

In the substantiation of this point of view the experts brought a whole series of arguments.

- A real alternative is absent.

- The stability of the dollar is determined by the very structure of export and of economic growth, and also by the role of the USA in the world economy.
- The dollar will in any event remain the leading world currency, even if in the course of time it transfer a part of its power to Euro or to another currency system.
- This is in many respects a political choice, since the supporters of the dollar are countries that are economic leaders themselves and have entered the G20.

Sengupta Sumit, India, Director, Kromber Company: *"As long as our world leaders will wait for Americans to pay their national debt, the US Dollar will remain as the world reserve currency. Either US economy will become bankrupt like Chevrolet car makers or once again the world will give more fresh loans to ailing and ever consuming American economy to create more havoc in the future."*

Vector 2. The considerable proportion of participants, about 40%, assumes that over the short and long term, the dollar will remain the leading world currency (it will preserve the status of the world reserve currency), however, its role will be gradually reduced in view of the reduction of the role of the US economy and increase in influence of regional centers along with their associated currencies (Euro, Yuan). Over the medium term the dollar may yield to Euro as the world reserve currency.

Ahmed Galal, Egypt, Executive Director and Director for Research at the Egyptian Center for Economic Studies (ECES): *"I think going back to the gold standard is not going to happen. Will the dollar loose its ground? Yes, partially. Will there be one currency world wide? No. But there will be multiple currencies that will be used as reserve currencies, the Euro for example. I am not sure about the Chinese Yuan, may be in twenty years."*

Vector 3. The era of a new reserve currency is coming. Already over the short or intermediate-term the dollar will lose a leading role as a basic reserve currency. This is not such a popular point of view: it is supported by only 15% of the participants of the survey.

Manuel Agosin, Chile, Professor of Economics, Department of Economics, University of Chile: *"I think the dollar will not remain the global currency because the US is losing its major power or at least we are going toward a multipolar world, not a single power system like we have had since this disintegration of the Soviet Union. In a truly multipolar system, we will have several currencies competing to be the main reserve currency, which will reduce the power of any one country, or any one country, to act unilaterally. I do hope that leaders will be able to agree, as soon as possible, on the establishment of an international currency, say the SDR."*

There are two basic approaches to the possible transformation of the world currency system that prevail here.

- A mono-currency system based on the dollar and slowly yielding to a basket of reserve currencies.
- The dollar will be substituted with a new global reserve currency. This can be one of today's existing currencies (for example, the Euro or Yuan) or a newly created regional currency (for example, the Amero), a currency based on the adoption of Special Drawing Rights.

Thus, over the short and long term, a majority of the experts do not expect that the world currency system based on the domination of the dollar will undergo serious changes, despite the fact that in the opinion of many survey participants, the role of the dollar will be gradually reduced because of objective reasons. The era of a new reserve currency for the majority has not come and is a long way off.

The absence of significant differences in opinions between the experts from developed and developing countries is, in our opinion, very noteworthy here. According to the results of the research, developing countries, first of all, are interested in changing the existing form of the global currency system, and the experts of these countries are considerably more frequent on indicating the need for a radical change in the world financial architecture. However, as a noted earlier trend to a more radical approach by representatives of *young* industrial countries, the case begins to fail. Involuntary action comes to mind and is *known* to psychology as the phenomenon of a non-coincidence of known and *real* motives of behavior, when people understood how *is necessary* to act according to socially approved norms, however, in reality they are guied but some other principles. So, do we deal with the pessimism and disbelief in our apabilities to influence the existing distribution of power or with the objective pronciles of the world market functionality?

Direction of the World Currency System Development

The central question in this block is the forecast of **the expert community concerning possible directions for the world currency system development.**

It is obvious that while answering such a question many experts are realistically discussing the retention of the role of the dollar as a world reserve currency in the nearest foreseeable future. However, we were strongly interested in what is the most probable way and what we will finally face *at the end of the tunnel* in the more distant future. And, if the factors of time, obstacles, necessary conditions and the like are not considered, the basic alternatives of the development of the world currency system are presented by the participants in the survey in the following way (Diagram 24A).

Diagram 24A

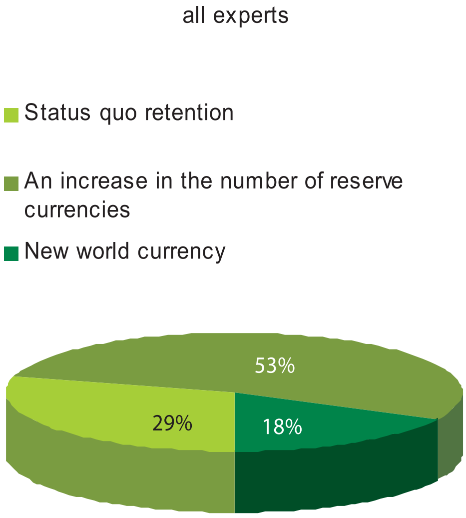
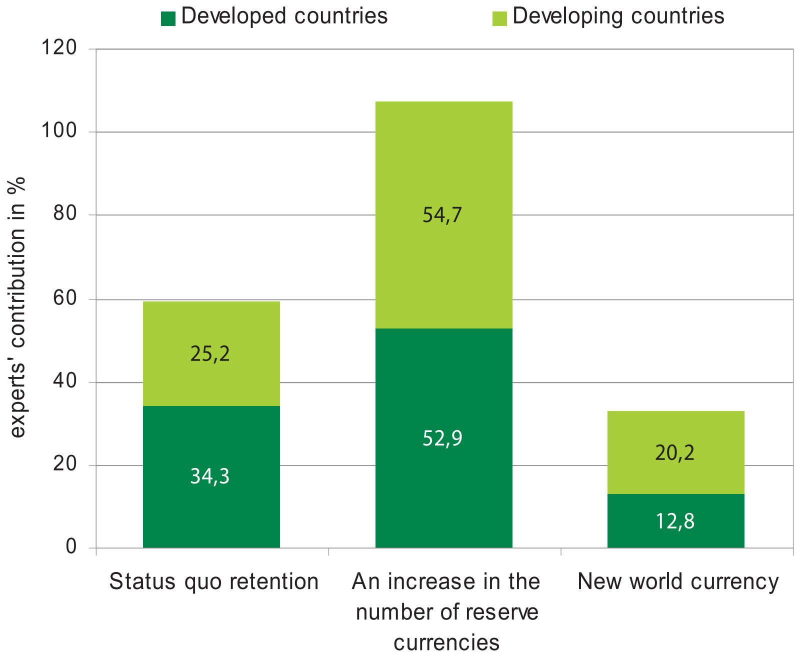


Diagram 24B



A third of the experts assumes the retention of the status quo: the prevailing role of the dollar. Strengthening the position of the Euro and possibly the yuan can slightly weaken the dollar's position, but the fundamental single currency system cannot be changed. As we see, the experts from developed countries dominate among the supporters of this point of view (Diagram 24B).

Marcio Garcia, Brazil, Professor of Economics, Catholic University in Rio de Janeiro: *"We have a dollar as a fact. However we need a substitute. The Euro is not looking much better, so we should expect something to come from Asia, maybe from China. But China has still to make the Yuan completely convertible. This is a step that we still haven't seen. Until then the USD will remain on top."*

More than half of the survey participants assume the world economy will go by way of divergence, and correspondingly, an increase in the quantity of reserve currencies will occur. Here opinions, in essence, vary along this axis, either there will be this *limited set* or a more *representative* basket of currencies.

Valery Geets, Ukraine, Director, Institute of Economics, National Academy of Sciences of Ukraine: *"The world currency system will evolve to the side of polycentrism and larger diversification."*

The transition period assumes a *limited collection* of currencies such as dollar, yuan and Euro in a three- currency basket. Some experts assume an increase in the influence of the SDR as an additional reserve currency.

In proportion to the expansion of influence of regional currencies, they will be supplemented by a basket of basic reserve currencies.

Yaroslav Lisovolik, Russia, Chief Economist of Deutsche UFG: *"Generally, in economic theory, there is frequently a dispute between the school of convergence, which discusses the fact that soon all economies will resemble each other, and all systems will become part of one, and by the school of divergence, which exactly speaks about the plurality of currencies and models of development and so on. I think that divergence of national econo-*

mies is nevertheless the only viable scenario for the stable development of an international economy. The development of the world currency system and generally the development of the world economy will go by means of divergence, i.e., by way of an increase in the number of world financial centers, number of world currencies, it will go by way of an increase in different modifications of the economies, national economies, and national free market systems".

And finally, about a fifth of all survey participants look beyond the horizon *of a transitional period* and opinionate that the world will go, in the end, by the way of creating a new global reserve currency. This includes versions of a united world currency on non-monetary platforms (gold and multi-commodity standards). Among the experts who support this point of view are many representatives of the developing countries.

Mikka D. Pineda, USA, Lead Analyst for Markets, Monetary Policy and Asia, Roubinl Global Economics LLC: *"2009-2011: USD dominance; 2010-2012: Emergence of regional currencies based on the euro, yen, yuan, and a common Persian Gulf currency (once the GCC forms as a monetary union); 2010: Emergence of the SDR as a world reserve currency; 2015: SDR or EUR take over the USD as the dominant world reserve currency"*

Here, the idea is unconditionally stated, that the world, in one way or another, will not abandon globalism. Simply, the road to a new globalized world will be more sinuous and longer through intensive periods of regionalization and possibly lead to new crises.

Shingo Hamada, Principal Investigator, Consulting Trilogia, Japan: *"To 2020, the degree of dominance of the US dollar will, step by step, be eroded; simultaneously the Euro will grow, but in approximately 2025 a probable currency crisis will occur, caused by the domination of the Dollar-Euro-Yuan, and then the world trade will not be able to manage the instability of these currencies. Most likely, introduction of a new global reserve currency will result".*

Along with the study of the issue about possible trends in the development of the world currency system, interest is expressed, not only in the collection of probable alternatives, but also in the operational *time scale* of the assumed changes by the experts.

Thus, the analysis is interesting on two axes. The first: how experts are willing to discuss and to consider possible changes in the *status quo of a currency* in the immediate future. The second: a portion in favor of fundamental globalization, either in regionalization as the optimum scenario or a natural progression of development of the financial architecture in a post-crisis world.

Prospects of the Yuan

A good illustration of all the aforesaid in this chapter can be the answers of our participants on the question: **"What will the expansion of the yuan in international trade result in, given the steps recently undertaken by China?"** (Diagram 25A).

Diagram 25A

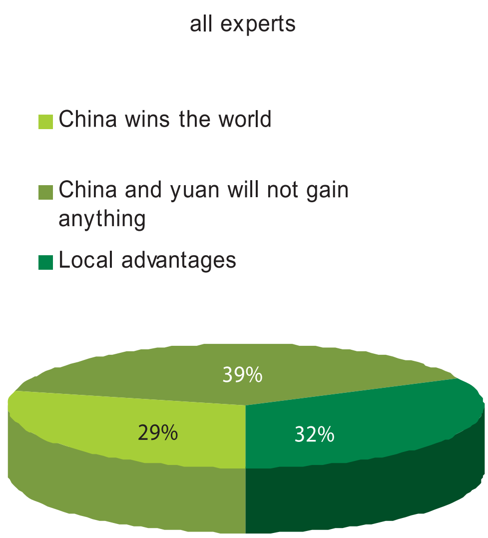
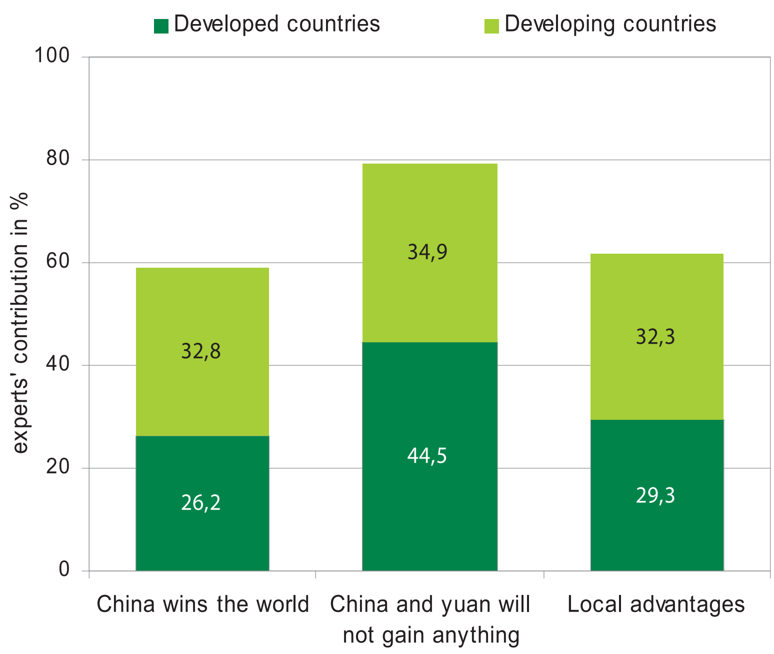


Diagram 25B



The Diagram 25B clearly demonstrates that the expert opinions to this question were polarized. It is completely logical, among the experts of developing countries *optimists* prevail, and from the developed, *skeptics* abound. However, these differences are not so essential, as it would be possible to assume.

A little less than a third of the survey participants consider this as an index of the growing power and international role of China and the Yuan, which is going to become a single valuable regional, and then a world reserve currency.

Zhiyue Bo, Singapore, Senior Researcher, East Asian Institute, National University of Singapore: *"Yuan will emerge as a major currency, first, with China's trading partners, then within Asia, and finally in the world. The emergence of the Yuan will diversify the provision of international reserve currencies and thus lower the risk of big fluctuations as a result of one dominant currency."*

About 40% of the experts who participated in the survey approached this, on the contrary, with professional skepticism. The Chinese economy stands as *a colossus on legs of clay*, not capable of seriously ensuring the Yuan as a stable unit for international settlement. For this, as a minimum, the Yuan must become a freely convertible currency, and the financial system in China has to undergo a number of changes. Therefore, the steps undertaken by China will not lead to fundamental changes in the distribution of power.

Willem Buiter, UK, Professor of European Political Economy, European Institute, London School of Economics and Political Science, Chief Economist at the European Bank for Reconstruction and Development: *"As long as Yuan remains unconvertible it can not become a world currency, I do not see any major steps towards liberalization. But if full liberalization takes place, the Yuan can become a global reserve currency, but only in the long run - not in my life-time."*

In this case a number of the experts emphasized a priority for China in developing domestic demand instead of increasing exports.

Jacques Sapir, France, Professor of Economics at the School for Advanced Studies in the Social Sciences: *"The Yuan is progressively to achieve a greater status when the Chinese economy is to become more inward looking than outward looking. So far, growth in China has been fuelled mostly by exports, and that has destabilized considerably not just the international system but China itself."*

And finally a third of participants in the survey consider that this actually will only lead to certain local advantages - in essence, the expansion of the Yuan's trading zone among its neighboring countries, but even these advantages, in the opinion of a number of experts, will bear a temporary nature and subsequently may lead to specific threats for China itself.

Stephen Bailey-Smith, UK, Head of Research CEEMEA (Central/Eastern Europe, Middle East, Africa) Standardbank: *"The consequence will be greater CNY demand which will foster increased CNY strength (especially against the USD). This will reinforce CNY demand, further undermining the Chinese export-led growth model."*

Thus, the theme of initiatives and the role of China again become a *boundary line*, which divides the expert community into *fans* and *skeptics*. And here it is hardly possible to say that a major factor in determining *the shift of the pendulum* to the side of approval or distrust comes down to which block of the developing or developed countries one belongs.

More often, it is possible to assume that China really becomes a unique symbol of new economic tendencies, the symbol of a new time that creates a somewhat partial relation to all undertakings of its power. For some, the expansion of China revolves around the hope of a refurbished world order, a stone torn away from a mountain, and absorbed into an avalanche. But for someone this *avalanche* can be a threat.

Idea of a New Type of the World Currency

Taking into account the expert forecasts on the ways of the global currecy system development it was also very interesting to find out how the expert community evaluated **the initiatives of Kazakhstan, China, Russia and South Korea, that initiated to introduce a new global reserve currency.**

As we can see in the Diagram 26A, a considerable proportion of the survey participants related very skeptically to this initiative, the differences between the experts from developed and developing countries have proven to be minimal (Diagram 26B). At the same time, the experts reject not the very idea about the need or possibility of a new world currency as such, but its opportuneness, fairness and practical embodiment in reality.

Diagram 26A

all experts

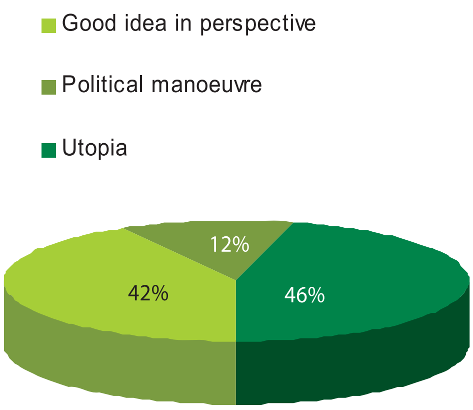
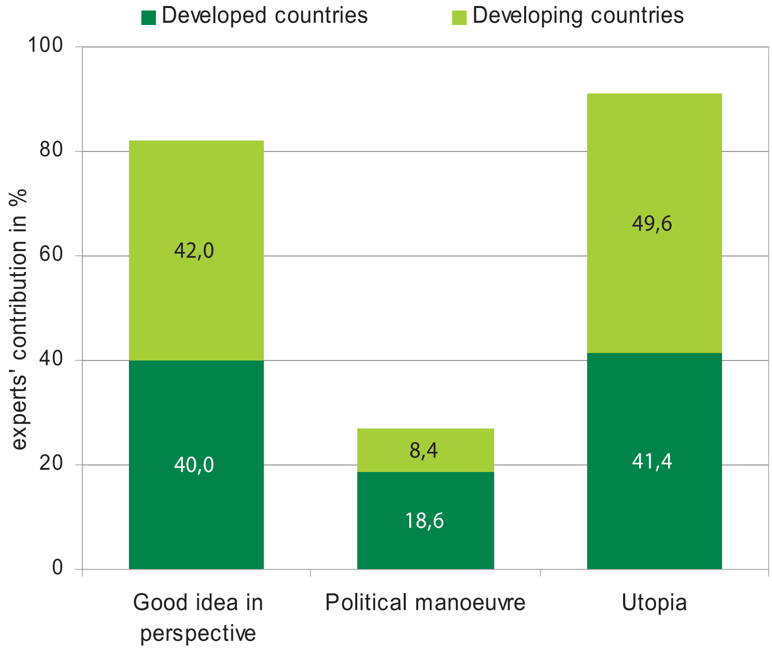


Diagram 26B



Some survey participants consider that such an idea has a right to exist but remains to be a question for the too distant future, therefore, now its consideration is insignificant. Besides this, reaching a political consensus in the support of this idea by the G8 countries would be necessary, firstly, with the USA, and that is is impossible at the present moment.

Paul Davidson, USA, Editor, Journal of Post Keynesian Economics, Professor of Economics, Bernard Schwartz Center for Economic Policy Analysis, The New School: *"Emergence of a new world currency is impossible without participation of the USA. We need all major economies, including the USA, to agree on that. No one developing country can introduce a world currency without support of the USA and other developed countries. Within the existing world order developing countries can not decide anything separately."*

However, a number of experts express extreme doubt in this idea and their ability of its authors to actually move it forward to the world community, or even to be able to agree between each other.

Igor Lutsenko, Ukraine, Chief Editor of the Financist.org.ua: *"One of the initiatives of Russia and China is to propose a new world currency – out of all that was proposed, this is at the top in interest. A plan in reforming the current world currency system is interesting, but this comes from the mouths of those who have too great a personal and individual interest. Russia and China pursue too clear interests in their own right if they were to proceed with a change in the system of the currency market. Therefore, to say, that these initiatives will be supported and perceived early, unfortunately, and possibly, if they proceed from such sources these ideas could be damaging."*

The fifth of the experts who participated in the survey are confident that this initiative is, in essence, a political maneuver, and not a real proposal to the revision of the status quo. In this case, it is a latent assumption that *the maneuver* can be a sufficiently successful movement. It is interesting to note that a large number among the experts who supported this point of view represent the developing countries.

However, a substantial part of the experts (more than 40%) consider this idea as interesting and positive, but achievable only in the distant future or with limited application. A number of experts endorsed the very idea of a withdrawal from the mono-currency system.

Mikka D. Pineda, USA, Lead Analyst for Markets, Monetary Policy and Asia, RoubinI Global Economics LLC: *"It is definitely an idea worth considering. Using a national currency as the international reserve currency bred global imbalances which in turn bred the current financial crisis."*

Approximately the same portion of experts, who approve the creation of a new global currency over the long term, are supporters of the *evolutionary* approach: a gradual and long journey, most likely, through an increase in the transition stage of a number of reserve currencies in proportion to the strengthening of separate regional currencies.

Yousef Al-Ebraheem, Kuwait, Economic Advisor at the Amiri Diwan in the capacity of Minister, Former Minister of Finance: *"Maybe not now, the world is busy putting the economies out fires, but maybe after things get back to normal, I think it can be even for the interests of the United States to reconsider this issue."*

Individual experts do not see the initiatives of the named countries as real anti-crisis solutions, but they consider their promotion itself serving other worthy purposes: discussions around this theme will be useful in the course of developing a new international financial system, will contribute in reducing the role of the US dollar as a world currency and in forming a base for the introduction of regional currencies.

But there is a the number of disposed experts who consider it necessary even now to move forward in this direction *in a revolutionary way*, at least in initiating a consideration of a new world currency at a suitable level.

Paolo Raimondi, Italy, Economist, Economic Journalist: *"I think that it is a very important proposal because we have to formulate a totally new monetary system that must reflects the end of the dollar based system. I see it as a stimulation for new ideas and new arrangements. From this debate and dialogue it will come out, with the agreement of all, if a new world currency is possible or if we should agree on another solutions."*

Thus, a majority of experts are convinced that the existing world currency system must be changed, and that it will change one way or another. However, the majority of the survey participants think that the global economic crisis will hardly lead to a global revision of the prevailing status quo soon.

Waltraut Urban, Austria, Professor, Vienna Institute for International Economic Studies: *"Some experts say that it is the ideal solution and others say that it is impossible because people will not accept a virtual currency for settling trade. But that what people were saying before the Euro too, so it is difficult to say. I think it can be, but should be discussed and looked at more details. And I think it's rather politically where the problem is."*

The most common position appears as follows. In the initial stage an expected retention of the dominant role of a US dollar will remain. Then, over the medium term, a gradual strengthening of regional currencies and the creation of a basket of reserve currencies based on the Euro, Yuan and others. Finally, in the very distant future, the creation of a new type of a common world reserve currency, unattached to any national currency, is possible.

Although the long-term theme of a new world currency looks like beeing completely justified, the attempts to raise this question at present remain to be an *utopian idea*. Possibly this originates from the understanding *in the inevitability of the objective rules of the market*, or perhaps, a prevailing firm position of the USA at this period of world history, or possibly, an inevitable world division on the outline of global regional alliances.

Alexei Mukhin, Russia, General Director of Center for Political Information: *"The idea of the introduction of a new universal monetary unit – the "Evraz", proposed by Nursultan Nazarbayev, is completely plotted in the concept of proposals, addressed by Russian management to the summit of the G20 and in strategy for the development of interrelations with the USA in the near term. The fact is that the idea of a ruble zone, extended to the entire territory of the former USSR frightens the governers of a majority of the now sovereign states: the project of introducing a fundamentally new currency is consensual and must cause, at least, interest in the majority of participants of the EurAsEC. It is interesting that the initiative from the leader of Kazakhstan, with enthusiasm received by the Russian side, subsequently was discussed by Kazakh officials as a distant future endeavor: it was said a sharp the negative reaction of a number of the countries, including the USA, that insists on the retention of the dollar as the only reserve currency (even at the regional level)."*

However, at the same time, are all these limitations and obstacles so insurmountable? Whether it is currently thoughtless to discuss a more valid device of the financial architecture in the post-crisis world? As one of our experts said, *"The matter is not about the money, but about who will become the intellectual leader of the post-crisis world"*. Currently, in our view, innovative ideas are exactly capable of becoming the seeds of consensus and of avoiding the growing conflict of interests of the North, South, East and West.

CHAPTER 12. ANALYSIS OF THE INSTITUTE: THE PROBLEMS OF THE FINANCIAL ARCHITECTURE IN THE POST-CRISIS WORLD OUTSIDE THE G20 PROCESS

Approaching the Global Civilization Crisis

Contradiction between Developed and Developing Countries as the Basic Element of the Global Civilization Crisis

Standard neoclassical theory assumes that transnational capital movement is caused by differences in interest rates in different countries. In turn, these differences in comparison between developing countries and developed countries are always positive, such as the developing countries above, which theoretically escaped the assumption because in developing countries, the relationship between capital and labor is low, and correspondingly, the productivity of capital is high. The real balance of global flows of capital during the long run confirmed these theoretical computations by statistics.

However, a fundamentally new phenomenon since 1999 in the world can be observed: the gross national economy of 142 developing countries began to exceed the volume of investment within these countries[36], moreover, a split between the economy and investment increased more and more up until 2007. Similarly, it rose and increased the surplus balance of the current accounts of these countries. This means that during the last decade the developed countries redistributed for its own benefit the savings of the developing countries.

As a result, a fundamentally new situation occured that contradicts the neoclassical theory and to a considerable extent deprived economic expedience: when a high concentration of profitable investment projects are at hand, predominantly in developing free market economies, where the surpluses are destined to developed countries, and where they are crammed into an ever increasing volume of instruments, it is completely natural that the structures of the instruments proposed for sale on the markets of developed countries would share instruments with a high level risk. The reason for this phenomenon is simple: without the presence of this group of instruments on financial markets in developed countries there would be a significant scarcity of investment tools, which would lead to a reduction in the percentage rates of these markets to the zero level.

Thus, the surplus of capital from developing countries to developed countries does not lead to an increase in reliable investments, but on the contrary, has an inverse effect in reducing their reliability, that convincingly demonstrated the mortgage crisis of 2007 in the USA.

This economically unjustified behavior is connected to a number of advantages presented in developed countries and not caused by fundamental laws governing the real economy and the juridical guarantee of its functioning, i.e., advantages with a speculative or manipulative essence.

The competitive advantages of developed countries, which cause an ineffective redistribution of world capital between developed and developing countries are examined in more detail in the following part of this report. Completing the discussion about the accumulated contradictions between developed and developing markets as to the reason for an expected sharp phase of the global civilization crisis, it is necessary to say the following.

First of all, it is necessary to note that we are dealing with a trap. The attempts to return the configuration of global capital flows to a natural state (in accordance with the theoretical postulates and economic expedience) will unavoidably lead to a drop in the welfare levels of populations in developed countries, which makes these attempts practically unrealistic from a political perspective. The retention of the existing configuration will lead to a further accumulation of contradictions, which will undermine fundamental factors of world economic development, and, in the final analysis, the resolution of these contradictions may take a form of an extremely sever crisis.

All this makes the occurance of the civilization crisis practically inevitable during the next 10 to 15 years. The sever nature of this crisis and its destructive consequences are comparable with that of the consequences of the World War. Therefore the presence of a mutually acceptable form of consent of accumulated contradictions must become one of humanity's main priorities. The achievement of this formation is only possible on the basis of the global collaboration of countries, similar to the collaboration, which was demonstrated within the process framework of the G20, and which, will include an expansion of the representation from developing countries.

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[36] *Capital Flows and Emerging Market Economies. BIS. CGFS Publications No 33. January 2009. P. 7.*

At the global level, it is already acknowledged that there is a presence of existing opposition and a need for access (testified by a resolution of the World Bank about the assignment of additional places on the Board of directors to Africa as earlier mentioned); however, steps towards the resolution of current contrudictions are still extremely insignificant and insufficient.

This report does not set a goal of proposing solutions to such serious problems, while this would require a separate research program, the first stage of which must be in the uncovering of origins and roots of the future crises. The fundamental reasons, historical and epistemological roots of global civilizational crises would require a separate and specialized analytical study. Within the framework of this study, precise temporary boundaries can and must be given in the growth of global contradictions and formulated proposals on their efficient resolution.

It is not accidental that the present crisis began in the financial sphere. The global financial market is the basic channel of global interrelations between developed and developing countries at present. Therefore, the emerging contradictions have come to realize in form of imbalances at the financial market. There are all the reasons for assuming that all subsequent crises, which are rooted in the current global civilizational crisis, will also be manifested, first of all, in the financial sphere.

Competitive Advantages of Developed Countries: Monopoly Based and Not Based on Monopoly

The nonstandard redistribution of world investments in favor of developed countries is caused by the presence of a number of competitive advantages of these countries on the global capital market. The following basic competitive advantages of developed countries can be named:

1. Higher level of protection of property rights in the developed countries, including higher level of protection of the rights of shareholders and creditors, that has been the result of a higher quality of legislative regulation (corporate legislation, financial market legislation and so forth), more transparency of the recipients of investments, more effective corporate governance, independence of judicial system, and also, as a whole, more effective enforcement.
2. Higher level of political and social stability, which radically decreases investment risks.
3. Low level of macroeconomic risk, caused by a balanced credit - monetary policy and by the stability of financial institutes, by size and by the effectiveness of the economy.
4. Higher level of securing assets, which facilitates the process of investment into national assets for global investors.
5. High level of openness of the national economy and national financial market, substantially decreasing transaction expenses of global investors.
6. Monopoly in production of reserve currencies, the increasing investment attractiveness of financial instruments nominated in such currencies.
7. Monopoly in the assessments of investment attractiveness of countries and financial instruments, based on factors that are not tied to objective quantitative methods analysis.

Furthermore, essential action on the redistribution of global capital in favor of developed countries renders a so-called gravitation effect. Its essence consists of the following: the higher liquidity of developed markets attracts additional liquidity, new capital, which makes these markets more liquid and less volatile, which additionally increases their investment attractiveness in comparison with the developing markets. Gravitational effect is the basis of shaping international financial centers: as the three basic factors of shaping international financial centers are the concentration of capital (investment demand), the concentration of financial instruments (investment proposals) and the concentration of financial services (financial mediation)[37].

The competitive advantages of developed countries enumerated above should be divided into two groups: based on monopoly and not based on monopoly. The first five competitive advantages of those enumerated are not based on monopoly. Two last competitive advantages of developed countries are based on monopoly.

Special attention should be focused on the fact that the redistribution of global capital in favor of developing markets began after the so-called *Asian* crisis 1997 - 1998, which caused a fundamental revaluation of the

[37] The original idea was formulated at the article: the Russian Stock Market and the Creation of the International Financial Center. An Ideal Model of the Russian Stock Market is for a Long-term Outlook (until 2020). - M.: [NAUFOR], 2008. P. 186. The subsequent thesis reflected the concept of the creation of an international financial center in the Russian Federation, approved by the council for financial markets by the President of the Russian Federation.

global competitiveness factors, which formthe competitive advantages of the developed countries mentioned above. This revaluation, from one side, contributed to the draining of global capital from developing countries for the purpose of reducing excess risk, but on the other side, it stimulated certain active processes of improving factors of global competitive ability by developing countries. As a result, in particular, began a rapprochement of indices, which characterize the factors of the competitive ability of different countries, and, correspondingly, the fundamental characteristics of investment attractiveness of different countries.

The approximation of the integral characteristics of currencies of the largest developing countries to the integral characteristics of reserve currencies began simultaneously and can be characterized in the appearance of an entire group of candidates for the adoption, over the long-term, of a club of reserve currencies. At this time, rating investment attractiveness of countries and national financial markets began, the need for which, was caused by the rapprochement of fundamental characteristics of investment attractiveness of different countries.

In this situation, the importance of the monopoly of the developed countries on evaluating the investment attractiveness of other countries from the point of view of their competitive ability on the global capital market increased significantly. A monopoly for the emission of reserve currencies also became more valuable under these conditions because of the increase in the number of countries whose currency does not possess the status of reserve in world commodity turnover or with the appearance of a number of aspirants for entrance into the club of monopolists.

In our opinion, the competitive advantages based on monopoly, are unfair. Their elimination must become an object of consideration of the community of nations.

The G20 Agenda Selection Patterns and the Problems of Developing Countries

In our view, the selection of the G20 agenda depended to the greatest degree on two factors:

1. The presence of consensus on the problem.
2. The global level of the problem.

The selection of the G20 agenda to a considerable extent depends on the presence of a consensus on potential questions of the agenda. The issues, which were not initiated by a consensus up to the moment of decision making, were not declared.

As an example, it is possible to propose an issue of common financial accounting standards, which was named in the Washington summit as one of the basic questions of the forthcoming London Summit, but in reality no decisions on this question, with exception of various slogans, have been accepted. The reason for this is seen in the fact that there are specific opposition between the American system of financial accounting (GAAP US) and the International Accounting Standards (IAS), which were not overcomed in the course of non-public discussions.

Another example — the solution to problems of responsibility of system-forming transnational financial organizations, which act in the territory of different countries of the world, and, correspondingly, which encounter differences in legal systems of different countries. In spite of the solution of the Washington summit, this question did not reach a consensus, and, correspondingly, it was not included on the agenda of the public discussions of the London summit.

In both examples, the consensus has not been achieved because of the unwillingness of the American side to draw nearer national standards to the international ones and to give part of its control over the US based financial conglomerates in favor of global stability. The US continues to remain the most powerful economy, with the most powerful financial market, with the largest source of investment received and the most reliable place for investment by the global investment community. Therefore, the weight of the USA in the G20 is deliberately greater than that of any other country.

Europe is much more ready to compromise in view of the presence of a united position of the countries of the European Union, which itself was already formed in the course of international discussions, and therefore contains fewer national interests but more global interests the USA.

To a considerable extent, the presence of consensus on one problem or another indicated a presence of consensus on this problem between the USA and Europe. Other countries with the presence of this consensus preferred not to speak out.

The second important factor, which influences the selection of topics within the G20 agenda, comes from the global level of the problem. The globality of the problem is determined by the number of interested in this problem member countries, which participate in the process, and therefore, global issues are affected only by the greatest quantity of countries.

The majority the G20 countries, have highly developed financial markets, to a considerable degree they are implicated in the functioning of a global financial market. Furthermore, in view of a relatively higher degree of the state of development of the financial market, these countries play an exceptionally important role, both for the functioning of the real economy and for an increase in the welfare of population. Therefore, because of this, the most of the G20 states were essentially interested to discuss issues of functioning of financial markets.

Many experts in the countries with developing financial markets, especially in the post-Soviet countries voiced opinion about the fact that the problems, selected into the G20 agenda concerned the financial system, with no attention to the fundamental problems of the global economy. The reason for this position, as it is represented, lies in another perception of the financial market, its role in the development of a real economy and the role of the problems connected with insufficient effectiveness of a functioning financial sector, in social and economic development.

Developed financial markets in the contemporary global economy are basic mechanisms, which redistribute world investment resources and world investment income. They are a basic transmission channel of risk, and during an excessive period of specific critical levels of risk, a transmission channel of the crisis phenomena among the countries and the continents. For this very reason issues regarding a functioning financial sector become a key for the functioning of entire world economy, and therefore their solution is a guarantee of overcoming interference in the world economy.

It should be noted, that there have been considerable increases in the concreteness of the formulations for decisions between the Washington and London summits. On those issues, that attracted interest from the side of the majority of the G20 participants, and on which reaching consensus proved to be possible, essential steps forward have been made. As the most clear examples one should consider the solutions proposed on the problems of credit rating agencies, on the problems of sufficient of capital and the limitation of financial leverage of financial organizations, and on risk management and prudential oversight.

It is at the same time necessary to note that the examination of many more fundamental problems remained outside the G20 process, first of all those affected by a difference of interests between the groups of developed and developing countries.

Analyzing the positions of the developing countries, it is possible to name three issues, that remained outside the G20 agenda:

1. Future world currency system. Forming of a new world reserve currency.
2. Fairness of the future world financial architecture.
3. Financial literacy of the populations.

The problem of fairness should be examined in detail as the subject was so painfully viewed by many countries with developing economies and/or developing financial markets. The different countries packed their concepts into this issue and demonstrated a completely different understanding of the problem. The first one is the level of representation of the developing countries in international institutions, that is what the developed countries already reacted on, and that was reflected in the solutions of the London Summit and can befound in the resolutions of individual international financial organizations.

This solution on increasing fairness in the world financial architecture is the most simple one. However, this is a purely formal increase in the role of the entire group of countries with developing markets was not arranged with the largest economies of this group such as of China.

The more complex solutions, one way or another, concern more fundamental questions of the fairness of the redistribution of world wealth, world financial flows and world incomes, including of investment. In particular, influence in redistribution of modern world rating evaluations. With respect to the rating estimations of credit quality of recipients of investment, the most obvious solutions were accepted. However, there remained no changes in the system of assumptions, on the basis which credit rating agencies will carry their evaluations and give estimations of reliability of one or another recipient or another of debt financing, including sovereign borrowers. Today this system of assumptions returns an explicit advantage to the countries with developed economies, seriously limiting the possibilities of the countries with developing markets in the competition on the world capital market.

Besides credit ratings, there are even ratings of investment attractiveness, which have an even more powerful effect on the redistribution of world capital, since they, in the first place, concern not only the debt forms of financing, but also longitudinal, and they are, in the second place, oriented to all groups of global investors both portfolio and direct.

Meanwhile the adequacy of rating evaluations of investment attractiveness of countries and effectiveness of their national markets, given by the organizations, acting in the interests of developed countries, is extremely doubtful. There are numerous examples to the flagrant infairness of these estimations with respect to a number of countries with developing markets, which occupy an independent political position conformable in their own national interests.

Thus, in our opinion, there are two of the most acute and vital problems that discriminate against developing countries:

- The ineffectiveness of the contemporary world currency system, based on the dollar;
- The inadequacy of investment rating evaluations of countries with developing financial markets.

Both above mentioned problems (ineffectiveness of the currency system and the inadequacy of investment rating), very negatively influence the redistribution of world capital to the detriment of developing countries.

In the present report we will examine the possible versions of forming a fundamentally new global currency system. A special more detailed research is required for developing proposals on creating a valid new global currency system. Development of proposals on how to increase objectivity and adequacy of investment ratings of the countries with developing financial markets a study also requires additional research.

The Future Global Currency System

The Possible Versions of the Post-Crisis Global Currency System Architecture. The World Reserve Currency Problem, Approaches to Solutions

A history schematic of the changes in standards of currency systems of the world can be represented as follows: silver standard — gold standard — gold exchange standard — mono-currency system — poly-currency system.

The first two stages are characterized by the development of national currency (money) standards. The third stage is a characteristic of both of the national currency systems of developed countries and of the global currency order. The last two are characterized by the development of standards of the global currency system.

The forming of a rudimentary global currency system is connected with agreements, achieved in Bretton Woods at the end of the 40th year of the 20th century, which marked passage to the world-wide gold exchange standard. The occurred failure in 1971 of the US exchange of dollar for gold became the end of gold exchange standard and passage to the mono-currency (dollar) global system commenced.

The contemporary global currency system is transitional from the mono-currency to the multi-currency. This system, after changing to the gold exchange standard, was originally mono-currency based on the US dollar. In a sense, the gold exchange standard was also a transitional system - from the system, based on gold, to the system, based on the dollar.

The internal contradiction, placed on the US currency, which is been the basis of the contemporary world currency system, became one of the brightest manifestations of the crisis. In the course of the crisis vividly appeared a dual nature of the US dollar, that it is simultaneously the national currency of the US and world currency. Was noted the increase of opposition between the functions of the dollar as a national currency and as international currency. In connection to this, the question about the need for the resolution of this contradiction arises. It is obvious today that in its previous form the global currency system no longer can exist, but to what form it will pass in the intermediate-term and long-term outlook — hence back to the opening question.

In our opinion, the basic possible versions of the future global currency system are as follows:

1. Common world reserve currency system, based on Special Drawing Rights.
2. Regional currencies system, built around regional emissive centers.
3. Dollar based mono-currency system.
4. Dual-currency system based on the dollar and Euro.
5. Multi-currency system based on a relatively large number of basic reserve currencies.
6. Gold standard.
7. Multi-commodity standard.

Pluses and minuses of the versions given above are not evident - a special research will be required for their development and formulation. In the present report we analyze the probabilities of forming, in the near future, one or another standard of the world currency system, without affecting the question about their global effectiveness and fairness.

It should be noted that the proposals by Russia to the London summit contained proposal to authorize the IMF (or the special authorized working groups of the G20) to prepare studies on two scenarios in the development of the global currency system, which Russia considers basic: the creation of a poly-currency system and the creation of the world reserve currency on the basis of Special Drawing Rights.

Among the noted versions, two versions mean recovery to the past, a gold standard and mono-currency system based on the dollar, which probability is, on our opinion, significantly low.

The gold standard exhausted itself even at the beginning of the past century, and even the crisis events of 2007 - 2009, which facilitated a notable increase of risk in the world financial system, and, as a result, to the increase in the demand for gold, did not lead to any attempts to restore a system based on gold.

The system recovery, based exclusively on the dollar, is also impossible, especially in light of the last few years that vividly demonstrated risks of the dollar, and, correspondingly, its ineffectiveness as the only basic reserve currency.

A two-currency system based on the dollar and Euro, this is the immediate objective, to which at present the global currency system is moving. Taking into account fractions of currencies in the currency structure of international bonds in circulation (see the Table 2), it is possible to discuss, that already today the global currency system is two-currency based, but, from the other side, according to other similar indices the Euro thus far still substantially lags behind the dollar (see the Table 3 and 4).

On a number of the indices (see the Table 2-4) we can see that the global currency system drifts to the side of the poly-currency system, i.e. the system, based on relatively large number of basic reserve currencies, and from this point of view a two-currency system is only at an intermediate point on this route.

This at present is the most probable version in the formation of the world reserve currency system, based on Special Drawing Rights of the IMF.

A serious advantage of this version is its support from China. The chairman of the People's Bank of China, Zhou Xiaochuan, produced a sensation before the last summit of the G20, after stating that Special Drawing Rights of the IMF must replace the dollar as a world reserve currency.

The SDR (Special Drawing Rights) is a special international asset, created by the IMF in 1969 as an additional instrument to existing official reserves of the IMF member-states. The appearance of a unique international reserve unit is tightly connected with the development of the world economy in a process of the gold demonetarization, the abolition of its official price and its elimination from the currency system. . In the 1960s in a number of industrially developed countries decided that there is a strong need for the introduction of a new supranational monetary unit because of the growing internationalization of national economies and as far as existing basic international means of payment (the US dollar and gold) was insufficient. In connection with this, the IMF took a decision to introduce a new international unit, which for the first time in history, was created on

Table 2. Currency Structure of International Bonds in Circulation, Including Money Market Instruments, as at the End of 2008[38]

CURRENCY	Value in Circulation, USD Bil.(s)			
	International Currency Market Instruments	International Notes and Obligations	All	Share, %
Euro	511.3	10 862.5	11 373.8	47.91%
US Dollar	370.1	8 234.4	8 604.5	36.25%
Pound Strerling	148.9	1 705.6	1 854.5	7.81%
Yen	32.7	751.1	783.8	3.30%
Swiss Franc	24.1	331.4	355.5	1.50%
Canadian Dollar	1.7	240.7	242.4	1.02%
Australian Dollar	9.7	193.2	202.9	0.85%
Soft Currencies	26.9	282.2	309.1	1.30%
Russian Ruble	1.2	12.0	13.2	0.06%
Other Currencies	4.9	121.2	126.1	0.53%

Comment. *Included in the composition of soft currencies: Argentinean Peso, Bath, Czech Crown, Danish Crown, Singapore Dollar, new Taiwan Dollar, New Zealand Dollar, Norwegian Crown, Rand, Singapore Dollar, Swedish Crown, and Zloty.*

[38] *It is calculated according to BIS data.*

Table 3. Shares of Currencies in the Joint Global Turnover of the Currency Market, %[39]			
CURENCY	Year 2001	Year 2004	Year 2007
US Dollar	91	88	88
Euro	38	36	37
Other currencies	71	76	75
Total	200	200	200

Table 4. Shares of Currencies in International Reserves, at the End of the Year, in % to Total Volume[40]			
CURRENCY	Year 2001	Year 2004	Year 2007
Dollar US	71.5	65.9	63.9
Japanese Yen	5.0	3.8	2.9
Pound Sterling	2.7	3.4	4.7
Swiss Franc	0.3	0.2	0.2
Euro	19.2	24.8	26.5
Other currencies	1.3	1.9	1.8
All	100.0	100.0	100.0

the basis of an international agreement. In accordance with the agreed terms, the IMF started on the 1st of January, 1970, to issue the SDR, which was a collectively formed reserve asset used for payments of external liabilities at the intergovernmental level and for regulating the balance of payments.

One of the basic tasks, which the SDR originally had to solve - the use of a new collective computational means as the basis of the international currency, basically a credit mechanism, i.e., the realization of passage from the gold exchange standard to the SDR standard. In this case it was assumed that the SDR would come out as the alternative to gold and the US dollar, and also to other national currencies, which fulfilled the function of an international backup of payment means.

The SDR is not a bond instrument of the IMF and by issuing the SDR the IMF does not increase its own capital. On the contrary, emission of the SDR leads to increase its international reserves of the member-states of the IMF. The SDR is included in the international reserves of the countries of the terms of the fund, and they can, at their discretion, exchange SDR units for their currencies in operations with each other. In addition to this, the terms of the IMF with a weak payment balance must have the capability to exchange the SDR unit for freely convertible currencies (US dollar, Euro, Japanese yen, and pound sterling), supplied by countries with the strong pay balances.

The SDRs are distributed among the member nations of the IMF proportional to their quotas. The SDR also serves as the IMF balance settlements unit and of some other international organizations. The SDR is calculated on the basis of a basket of key world currencies. During the 2001-2005 period, the composition of the currency basket used to calculate the SDR was determined in the following proportions: US dollar – 45%; Euro – 29%; yen – 15%; and pound sterling – 11%.

From the moment of creating a new collective calculated means six SDR releases for the sum of 21.2 billion have been issued. At the present time, the limited dimensions of SDR emission, and also the limited nature of their use, determine a low portion of value of the SDR compared to the total volume of world international liquidity, which of the end 2000 was composed of 1.2%.

[39] *It is calculated on base of the BIS three-year report. World currency market and market de - Riatanov in 2007. (Triennial central bank survey, December 2007, Foreign exchange and derivatives of market of activity in 2007.*

[40] *Source: The annual report of the IMF, 2008.*

One of the most authoritative world financiers, George Soros has supported this version[41].

Attempts at forming regional currencies already repeatedly were undertaken. One of them was completed successfully - in Europe the new freely convertible currency of the Euro, which has been a typical regional currency. The success in the introduction of the Euro is based on a close economic integration of countries of Western Europe, unification of their currency, budgetary and other regulating regimes.

Other projects aimed at the introduction of regional currencies thus far remain projects with relatively low probability in their realization in the immediate future. The composition of the potential consortia, which emit one or other regional currency or another, frequently changes, different countries participate in such several consortia. Commonly known projects in this field are:

- Common Persian Gulf Arab countries currency;
- Common currency of the Southeast Asia countries;
- Common currency of the Latin American countries;
- Common African currency.

The most audacious and widely proclaimed project from those named above is a project to create a common currency[42] by five Arab states (SaudI Arabia, Kuwait, the United Arab Emirates, Qatar and Bahrain), generated and entered in the 1981 council of the collaboration of Arab states in the Persian Gulf[43], by January 1, 2010. Its solution was accepted at the end 2008. But in reality the presence of a large number of problems and opposition[44] will hardly make it possible to realize this project. As a last show of events (the United Arab Emirates abandoned the agreement about a common currency), the creation of a common currency within the countries of the Persian Gulf is fast becoming a PR action rather than a fact of reality.

In southeastern Asia the problem of the introduction of common currency by the ASEAN[45] countries was discussed for a long time, its name even was proposed; however, the solution was not accepted. The absence of introducing a common currency of states, which possess a ample and steady financial position, was the main reason for delays in making this decision. In May 2008 China, Japan, South Korea and 10 additional Asian states agreed about the creation of a reserve bank, an alternative to the IMF, which fulfills similar functions[46]. In this configuration of initiators, the project to introduce a united Asian currency becomes considerably more probable; however, significant time will be required for its fruition.

States - participants in the Bolivian Alternative for the Americas (ALBA), into which enter Venezuela, Cuba, Bolivia, Nicaragua, Honduras and Dominica, and also joined with them Ecuador, agreed at the end of November 2008 to create a united currency area, and, correspondingly, a common currency, the SUCRE (SUCRE, Spanish Sistema Unitario de Compensacion Regional – the United System of Regional Compensation). The absence of any practical measures directed toward the realization of this solution, the established periods critically testifies to an absolute unachievable project, not to mention the absence of objective prerequisites for forming a common currency for the group of the named countries.

At the same time there is the other project on the American continent of creating a regional currency that is probable more achievable by 2010, as it is expected, the USA, Canada and Mexico might introduce a common currency.

The currency with a romantic name Amero, might replace the American dollar, Canadian dollar and Mexican peso[47]. However, the Amero is hardly possible to call a regional currency but more so a contra account – this is a calculated unit for trade between three countries and will not replace national currencies.

The integration process in Africa has also passed intensively, but into the 1980's through to the 90's they covered groups of countries, which were united according to different signs. At the beginning 2000 to a number of years, the situation changed. In 2003 the Associations of the Central Banks of 53 countries of Africa declared their intention to introduce a united currency by 2021 for the entire African continent[48].

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[41] *George Soros. Global Anticrisis Policy: to Create New Money. / Vedomosti. February 10, 2009.*

[42] *The most sonorous name – dinar of bay (Khalidzhi, from the Arab word "of khalidzh" - "molded edge" and "dzhuman" - pearls); however, the different versions of the name are discussed, for example, of "rial".*

[43] *Besides the named countries, also Oman enters into this council, which decided thus far to preserve the national currency.*

[44] *See their analysis in the article: Sovreminaya, Shkvarya L. V. The State and the Basic Problems of Financial Interaction of Arab Countries. / The Problems of the Contemporary Economy, N 2 (22).*

[45] *Association of the states of southeastern Asia. The countries which are members: Brunei, Vietnam, Indonesia, Cambodia, Laos, Malaysia, Myanmar Singapore, Thailand, the Philippines.*

[46] *E. Gaydar, A. Chubais. Economic notes. - M. ROSSPEN. P. 180.*

[47] *Proceedings. On December 3, 2008.*

[48] *The world economy: forecast until 2020/edited by Acad. A. A. Dynkin. - M.: Master, 2007. P. 48.*

The article submitted by the President of Kazakhstan N. Nazarbayev refers to the question of forming a new global currency system. He writes: *"the system of world currency has long ago become clearly obsolete forever and that also is confirmed by a global world crisis... the mechanism of a new world currency system must be built on the basis of a special system of anticipatory monitoring for future calls in the century of peace and humanity."* [49] In this case, production is seen in a transition period in potentially equipping an institute of regional currencies: *"the main thing is to remove (or at least to redistribute) the world load from the old defective system of world currency, after transferring it to a system of regional and continental emissive centers for a regional supranational inter-governmental currency calculated unit."* [50]

It seemed to us that the probability of realizing of the overwhelming majority of projects in the introduction of a united regional currency is extremely low. There are projects, the probability of realization of which is hardly at the dreaming stage; however, on the whole, we consider the version of the passage of a world currency system to an existence based on regional currencies improbable. Many experts evaluate this version even less optimistically. So, at the Round table on the theme: *the Future World Financial Architecture and Russia's Place In It*, organized by the Foundation *Center of the Development of the Stock Market*, the project of shaping regional currencies were evaluated by A. Handruev as Utopia: *"the attempt to invent a new model, to switch over the system, based on the regional currencies - this is clean Utopia."* [51]

One of the possible versions of the post-crisis global currency systems called the multi-commodity standard was not indicated by other experts until now. by a multi-commodity standard, we understand the system that is based on a common world currency, which is calculated on the basis of the sufficiently wide array of universally recognized prices of goods.

In this case we proceed with the following considerations.

Firstly. A common world currency must be free from national interests, national risk and special national features when forming of the price of national monetary units. This indicates the need for leaving the existing standards of a world currency system, based on national currencies.

Furthermore, a united world currency must be free from subjective factors, which can prevail in the solutions of international financial organizations or other supranational and extra-national issuers of world currency. Therefore the price of the great circle of goods, deprived both national, and subjective distortions, is most suitable for determining the exchange value of a united world currency.

Secondly. A united world currency must be reliable. In moments of crisis, during development of the world economy, investors redistribute their investments in favor of the most reliable currencies, gold and other precious metals, and also commodity reserves, predominantly stock exchange goods. Under the conditions of a sharp weakness in reliability of national currencies by the natural *refuge* of investors remains a selection of goods, which includes essential components such as gold and other precious metals. In other words, creation in a united world currency, computations of which are based on the prices of goods, is similar to the creation of an ideal conservative briefcase of active investors, who attempt to decrease risk at the moments when crises arise.

Reliability is required in order to effectively use currency as a reserve. From the point of view of reliability, a multi-commodity standard deliberately proposes to investors a more reliable tool than the existing tools of stationing reserves. One should consider that in reality foreign currency reserves are placed not into the available currency, but into treasury bonds of countries, which emit this currency, whose reliability is based exclusively on a *word of honor* of the governments of these countries. The united world currency of a multi-commodity standard in this plan is deliberately more reliable, since under the conditions of a multi-commodity standard, reserves will be placed into the obligations and provided for with commodity reserves. Among other things, this means that a united world currency of a multi-commodity standard will not be subjected to inflation.

Thirdly. A united world currency must be valid with respect to all countries of the world. Under the conditions of a market economy, which assumes valid price formation on the basis of the free competition of supply and demand, price of basic goods, utilized and produced in different parts of the world, are deliberately more valid, than formed, to a considerable extent, under the action of subjective and political moments in the exchange values of leading national currencies. A united world currency, whose exchange value is based on commodity prices, is capable of removing misalignments in the distribution of world capital, world wealth and world income, which contribute to the accumulation of fundamental global contradictions and to the development of a world-wide crisis.

Fourthly. A united world currency must realize the functions of a universal equivalent. Specifically, therefore, silver and gold became the bases of currency systems. The currency of a multi-commodity standard is free

[49] *N. Nazarbayev "Keys from the crisis" / Rossiyskaya gazeta, February 2, 2009.*

[50] *N. Nazarbayev "Keys from the crisis" / Rossiyskaya gazeta, February 2, 2009.*

[51] *The Future World Financial Architecture and the Place of Russia in it. Materials of the Round Table. - M.: TSRFR, 2009. P. 24.*

from limitations and deficiencies with precious metals as a version of a universal equivalent, but it is capable of fulfilling all those functions of the universal equivalent, which carried out silver and gold.

The probability of forming a multi-commodity currency standard within the next few years, in our opinion, is extremely small. However, this standard, as it is represented, fully considers global social demands for those functions, which are laid in this version of a global currency system. In the future, in the case of a developing global world-wide crisis, a demand for a similar version in forming a post-crisis currency system will grow considerably. Accordingly, the probability of the realization of this version will radically increase.

Post-Crisis Structure of a Reserve Currencies Basket as an Important Factor in the Global Capital Redistribution

In the majority of the versions of future a global currency system is an assumed existence *of a club* of the most powerful and authoritative currencies, into which will be invested the reserves of the countries of world - reserve currencies. The countries of the world today already compete for the right to be represented in this *club*, and in the immediate future it follows to expect considerable intensification of this competitive activity. The factors, which cause *the prestige* of membership in this *club* is considerable, but taking into account the development of the tendencies of globalization and security in the modern world, and also an increased role of accumulated wealth in social and economic processes, in the first place, over the long-term, these factors should be considered as a redistribution of global capital in favor of countries that emit currencies, and which have the status of a reserve.

The redistribution of global capital between the reserve currencies indicates the assignment of essential advantages in global competitive activity to those countries, which emit currency utilized by global investors as a reserve. These advantages realize an additional form of resources for the development of enterprises of those countries, by absorbing the enterprises of other countries, for an additional increase in the welfare of the population of these countries and so forth. Therefore, the presence of currency in the country, examined as a reserve, is exceptionally important for increasing its role on the world stage, for an increase in the welfare of its citizens and an increase in their standard of living.

The term *reserve currency* originates from the international foreign currency reserves, formed by countries of the world, first of all by those, whose national currency is not sufficiently reliable, and therefore reserve. In other words, the reserve currencies include those currencies, which are actively used by international active members, so the currency could be used as a reserve, fulfilling of a number of conditions when necessary.

Firstly, there must not be limitations in the operation of this currency, including in operations concerning a capital nature. In other words, the currency must possess complete convertibility. This, so to speak, would be the juridical prerequisite in transforming one or other national currency or another into the reserve.

In the second place, there must not be other factors of an economic nature that limit possibilities on the use of this currency in international calculations, including according to its use as the object of investment. In other words, the level of supply and demand of this currency on the global financial market must be sufficient for conducting operations any volume without an essential action on the market price of this currency. In this case this currency must be quoted by the adequacy of financial organizations, which conduct operations on an international scale, to be represented on organized global markets (i.e. to be the object of urgent standard contracts). These conditions are the economic prerequisites of the transformation of one or other national currency in reserve that supplement an appropriate juridical prerequisite. The fulfillment of economic prerequisites converts the currency, which possesses complete convertibility, into a freely convertible currency.

Thirdly, the investment characteristics of currency must satisfy the demands of investors, who intend to use this currency as the element of their international reserves. First of all, it must possess a high degree of reliability, i.e., the state, which emits this currency, must be evaluated by investors as maximally reliable, as a first-class creditor, who always fulfills his obligations. The reliable freely convertible currency, which possesses a low level of investment risk, becomes a reserve currency.

For the answer to the question regarding what currencies precisely have a chance to enter the club of reserve currencies in the near future, we analyzed the following indices, which characterize the potential of different currencies as possible reserve currencies.

1. Relationship of a nominal exchange rate and parity of purchasing power (integral index).
2. Fraction of currency into:
   - The volume of transactions on the world currency market (see the Table 3);
   - The volume of world foreign trade turnover;
   - The structure of foreign currency reserves of countries of world (see the Table 4);
   - The volume of emission of international bonds (see the Table 2).

In our opinion, the relationship of the nominal exchange rate and parity of purchasing power is the index, which results in the action of different factors, which determine the possibilities of one or other currency or another to be a reserve currency. The approximate equality of the nominal exchange rate and parity of purchasing power is reached only on the condition of complete freedom of conversion of this currency and its sufficiency in high volume operations on a global scale, taking into account its demand by active international financial members[52]. Therefore the rapprochement of the nominal course and parity of purchasing power most naturally reflects the totality of the characteristics of the reserve currency.

During a sufficiently prolonged period all reserve currencies demonstrate insignificant (as a rule, limits of 20% on either side) deviation of the parity of purchasing power from the nominal exchange rate (see table 5).

Only one steady exception exists; the Swiss franc. It has a steady negative deviation of the parity of purchasing power from the nominal exchange rate, which arose as a result of the active use of this currency as a means of conservative growth and a high portion of financial branches and foreign trade turnover of this country in the economy.

The currencies of the countries with the largest developing financial markets in majority demonstrate a steady variation of the nominal course with the parity of purchasing power (see the Figure 4). The only exception is the Mexican peso. A sharp acceleration of this process for a number of currencies occurred in 2007, a deviation from the prevailing tendency, which will be overcome as a result of the 2008 - 2009 crisis, and it is a reflection of sharp growth in disproportions on the threshold of the world crisis.

The results of the analysis (see the Table 5 and the Figure 4) testify that Korea and Brazil have the best prospects on entry into the club of reserve currencies, they are already partially carrying out functions of re-

Table 5. Deviation of GDP Values, Calculated on the Parity of Purchasing Power, from the Nominal GDP[53]

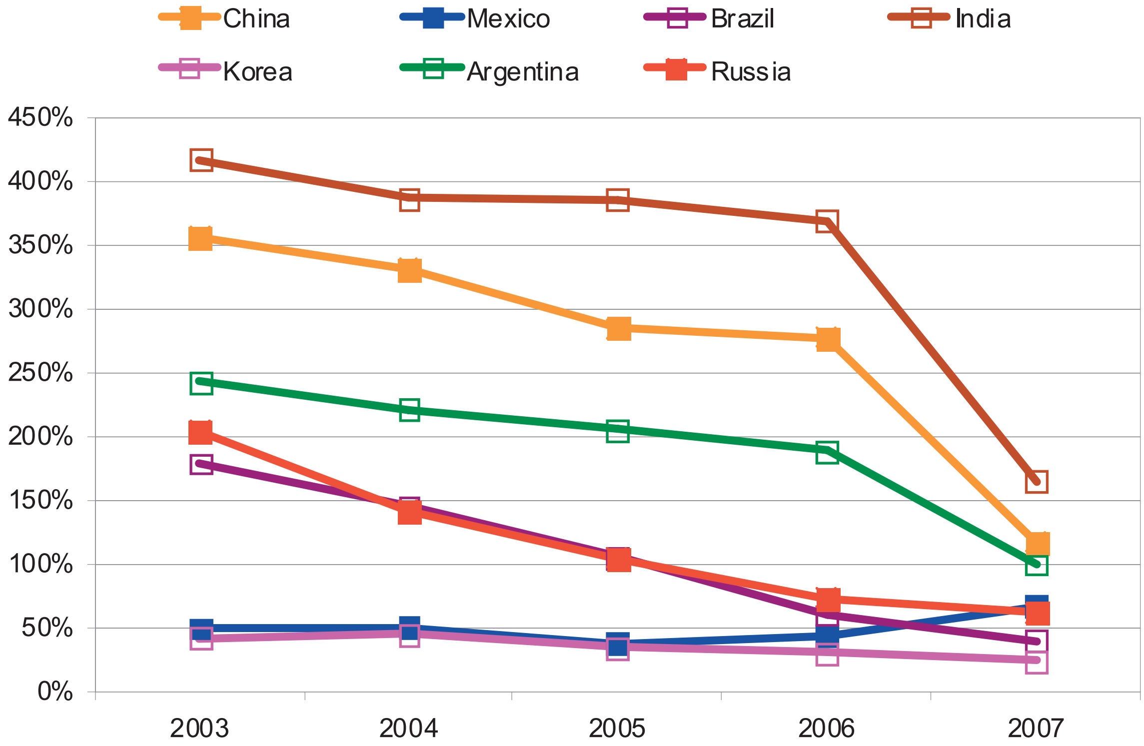
COUNTRY	Year 2003	Year 2004	Year 2005	Year 2006	Year 2007
USA	-0.1%	-0.3%	-0.4%	0.0%	-0.4%
Japan	-17.2%	-18.4%	-12.5%	-4.8%	-1.8%
Germany	-5.1%	-14.3%	-13.1%	-10.0%	-14.2%
Great Britain	-10.5%	-14.4%	-12.1%	-10.0%	-21.4%
France	-6.6%	-12.9%	-13.3%	-8.6%	-18.9%
China	356.5%	331.9%	284.6%	276.6%	116.4%
Italy	6.4%	-3.0%	-3.2%	-2.7%	-14.5%
Canada	15.5%	1.4%	-4.8%	-8.9%	-11.0%
Brazil	178.6%	145.2%	104.9%	60.0%	39.5%
Mexico	49.3%	50.0%	37.0%	43.2%	66.2%
Spain	9.4%	5.5%	0.9%	1.6%	-0.9%
India	416.9%	386.1%	385.8%	368.7%	164.5%
Korea	41.7%	44.3%	34.1%	29.8%	23.9%
Australia	11.8%	-4.0%	-8.2%	-5.2%	-10.7%
Holland	-6.8%	-9.8%	-9.6%	-9.8%	-16.0%
Argentina	242.7%	221.0%	204.8%	188.7%	99.3%
Russia	204.2%	141.9%	104.3%	72.7%	61.7%
Switzerland	no data	-31.1%	-30.1%	-25.7%	-26.1%

[52] *Financial Institutions and Economic Development. / D. Smislov. – M.: IMEMO RAS, 2006. P. 179.*

[53] *Calculation according to the data of the World Bank.*

Change in Deviation of GDP to the Purchasing Power from the Nominal GDP (Figure 4):

Figure 4



gional reserve currencies (reserve currencies of a specific world region). However, the temporary boundaries of completion in this process are extremely diffuse and it is definitely remote from the present day. Forecast models (considering the factor of the 2008 - 2009 crisis) show that the moments of entry into the *20-percent corridor* for the currencies of the countries with a developing financial market are limited by the following temporary ranges: for South Korea won – 2010 - 2012, for the Brazilian real – 2012 - 2015, and for the Russian ruble – 2014 - 2018. The prognostication of similar parameters for the Chinese Yuan is at present pointless, since it possesses substantial limitations of convertibility, and the removal of these limitations can radically change the existing trend. Nevertheless, it is completely obvious that after the transformation of the Yuan into a currency with complete convertibility (which it follows to expect in its 10 year anniversary) it will become a basic aspirant to entering into the club of reserve currencies.

Thus, by 2020 it is probable to form a club of reserve currencies in the following composition: the US dollar, Euro, Japanese yen, pound sterling, Swiss franc, Canadian dollar, Australian dollar, Korean won, Brazilian real, Russian ruble, Chinese yuan – only of 11 currencies. However, this collection of reserve currencies can take place only under conditions that retain the tendency to transform the existing predominantly mono-currency into the world-wide poly-currency, and also to retain the existing national currencies by 2020 in an unchanged formation (i.e. it is assumed the nonalignment of Great Britain and Switzerland to the zone of the Euro, and also the absence of other integration processes, which lead to the disappearance of traditional national currencies).

Within the framework, the scenario of forming regional reserve currencies (newly created supranational currencies based on a basket of national currencies of one region or another in parts of the world) the quantity of regional reserve currencies will substantially decrease. In contrast to the extremely wide circle of national currencies, which form part of the club of the reserve currencies of the 2020 model (the latitude of the circle in this case would be determined by the need to have the capability to accomplish diversification), the circle of regional currencies, which would form part of the club of world reserve currencies, will be substantially more narrow. Within the framework, this scenario it is practically inevitable: the connection of Great Britain and Switzerland to the zone of the Euro; the forming of regional currencies of Southeast Asia, Latin America, and the Middle East.

In this version of the development of a global currency system, the following composition of the club of the reserve currencies of the 2020 model is most probable: US dollar; the Euro; the regional currency of Southeast Asia (based on a basket of currencies, into which they enter, in t. h., yen, won and yuan); the regional currency of the Middle East (with the condition for inclusion in the composition of the basket of currencies on which it is based, all currencies of the developed countries of this region); the regional currency of Latin America (with the necessary condition for inclusion in the composition of the basket of currencies, on which it is based, the Brazilian real, the Mexican peso and the Argentinean peso). The Russian ruble within the framework this scenario does not have a chance to become part of the club of reserve currencies independently; however, Russia can be joined to one of the other regional currency system (for example, the European or southeast Asian), or form one additional regional currency system, with the condition in the beginning it remains alongside strong currencies and of sufficiently large economies.

The version of development of a global currency system in the direction of forming a multi-commodity standard principally changes the chances of separate currencies by the entrance into the club of reserve currencies. In this case *the field of battle* will leave many complementary factors. In particular, will intensify the positions of the currencies of those countries, which have significant reserves of goods, actively consumed on a worldwide scale.

CONCLUSIONS AND PROPOSITIONS

The world crisis leads to reconsideration of fundamental ideas. Thus, a new dimension for the determination for the term *developing world* occurs. If, in the 20th century *those being developed* were to be referred to as *lagging in development* thus poor, unfavorable and *uncivilized*, requiring constant aid and *caring* and then overtook *the advanced world*, in the 21st century the feelings may have been displaced. When the experts say: *Developing world*, then have in mind the following characteristics of these countries:

- Rapid development, high rates of economic growth in the last decade;
- Large untapped potential in the development of areas such as natural resources or cheap labor;
- Industrialization, new industry, a high portion of new productive capital;
- A young population, a high percentage of young in the demographic structure of the population.

It is interesting that the western experts begin earlier than experts from developing countries to treat the developing world, not as a periphery, but as the center of the global development. Such a change in economic geography has been accelerated by the world crisis. Expert expectations have already been formed, that some of the new industrialized countries will prove to be the main beneficiaries of the crisis.

For a period of several years between the economists the discussion about a possibility of *decamping ties* of the indices of developing markets from the developed world. Today, at the height of a world crisis, we see that *decamping* began, and it concerns as many economic indices, as political ones. There will appear new locomotives in global post-crisis growth, and the large parts of these new locomotives are located in the developing world. The leaders of this growth will objectively require a new status and political role.

The redistribution of the initiative of development occurs. The new role of the developing world must be taken into account in the creation of a financial architecture of the future, since by the status quo *world equilibrium* is already disrupted and the old equilibrium will be no more. A new equilibrium will be found either in the course of global discussion or in a rigid destructive conflict.

The threat of a civilization crisis in the next decade is determined by the following imbalances:

1. Global Investment Imballance. In the last decade, in spite of the economic logic occurring in the global redistribution of capital from developing countries to the developed, a high concentration of profitable investment projects were present, predominantly in developing free-market economies. From these country's surpluses where packed an ever increasing volume of all of the more risky and complex instruments that were torn from the real sector of the economy and directed to the markets of developed countries. The surplus of capital from developing countries into the developed does not lead to an increase in the reliability of investments, on the contrary, it makes the entire world system unstable, and crises become inevitable and increase in scale. The monopoly of the West on the issue of world reserve currency and the monopoly of rating agencies for the estimation of investment attractiveness are the reasons for investment imbalance. The rectification of investment imbalance is impossible without the reform of world currency system and system of rating agencies.

2. Global Political Imballance. The representation of the developing world in global institutions, which make decisions, is clearly insufficient. There arose a *split* between the role of the developing world in the global economy and the role in world policy. This leads to a blind situation from the point of view of decision making: in order to straighten economic imbalances, solutions are necessary at a global level, which cannot be accepted with the insufficient representation of developing countries in leading world institutes.

Global investment and political imbalance is to a considerable extent the consequence of a weakness in the states of the developing world, which inherently result from internal political imbalances of the majority countries. The majority of the developing states remain, in the long-term, politically unstable, which makes the factor of political risk the main consideration in the estimation of their competitive ability. There *appears* a *split* between the economy and policy. Strengthening the economy thus far hasn't led the developing world to internal stability, while the political instability of these countries can become a detonator of large conflict and the real threat to world stability. It preserves the existing global investment and political imbalances, provoking a growing opposition and increasing the potential power of a future explosion, in course of which these oppositions will be permitted.

Thus, the current world economic crisis is an omen of a world-wide crisis. The attempts to return the configuration of the global flows of capital to the natural river bed unavoidably will lead to a drop in the level of welfare in the population of developed countries (the so-called golden billion), which makes these attempts with those practically unrealizable from a political point of view.

The retention of the existing configuration will lead to the undermining of fundamental factors of world economic development, and, in the final analysis, to the permission of information of opposition in the form of an extremely sharp crisis. All this is practically inevitable in the offensive of a clearly expressed world-wide crisis into the next 10 to15 years.

The severest comparable of this crisis in its destructive consequences is compared with the consequences of a World War; therefore the presence of a mutually acceptable form of the permission of the accumulated opposition must become one of the priority tasks of humanity. The presence of this form is only possible on the basis of global collaboration of countries, similar to that collaboration, which was demonstrated within the framework the process of the G20, but including many more participants, first of all owing to the expansion of representation of developing countries.

Propositions

In contrast to the previous parts of the current report, proposals in the Part III cannot be formulated immediately. The present report only touches upon the most general, common and fundamental questions, which disturb the developing world and which remained out of the agenda of the G20. For developing proposals on questions of fairness of a post-crisis financial architecture, warning of the severest acute results in permitting or prolonging a world-wide crisis, working out concrete solutions by the most important questions, which affect the interests of the developing world, would required the implementation of an extensive study program in these directions. Now it is possible only to propose the most obvious fundamental solutions and to pose problems in the production of more specific proposals.

The most obvious fundamental solutions, directed toward the achievement of the global effectiveness of a post-crisis global financial order, as it is represented, are as follows:

- Preparation in a united joint platform of the developing world under the aegis of the BRIC countries and its introduction for consideration of the G20. The developing world must attempt to become the center of international initiatives and innovations, initiating the consideration of questions, to the greatest degree which affect its interests.
- Introducing the question of reform to world currency system on the agenda of global discussion in 2009.
- Introducing the question about fairness adequacies of rating estimations of investment attractiveness of countries developing world into the agenda of the global discussion in 2010.

At the same time, the question about the configuration of a future world currency system now does not deliberately have an answer, since the answer must be found in the course of global consideration of this problem. We only now propose to the world community to discuss global effectiveness and fairness of the world currency system, which assumes the appearance of a new supranational currency based on a multi-commodity standard.

A question about methods and ways of overcoming subjectivism and insufficient adequacy of estimations regarding investment attractiveness of countries of the developing world given by experts and organizations of developed countries also must be discussed by professionals from the different countries of world. The solution of this problem can lie both in the plane of conducting the independent Audit of procedures, utilized with the development of estimations of investment attractiveness of countries and financial centers, and assume other forms of permission, including the creation by leading developing countries of an alternative system of rating estimations of investment attractiveness, based on the principles of transparency and fairness.

Furthermore, other solutions are necessary in the totality directed toward the guarantee of fairness of a global financial architecture through the proportional calculation of interests in the developing world. The achievement of global effectiveness in the world financial system in the present globalized world is possible only on the basis of global fairness. The search for such effective and valid solutions is a priority both for the entire world and for the intermediate-term study program of our institute.

CONCLUSION: A LOOK INTO THE FUTURE

Economic progress, by itself, does not provide guarantees of a peaceful existence between peoples. The 20th century, in spite of phenomenal economic growth, was not a century of world stability. The 20th century survived two World Wars, and a *Cold War*. During the century the world financial architecture several times underwent radical disruption and reconstruction. Today's time also undermines faith in stability. An increasing quantity of experts from different countries percieve the economic crisis as the beginning of a prolonged epoch of instability and redistribution of forces in the world, the appearance of new leaders, new models and, possibly, new boundaries. The selections that exist are of instability and destructivity, or creativity. Will we find opposition to the nature of a global conflict or global competition that will push slightly states to effective interaction?

Increased Possibilities in Reaching a Global Consensus

The international investigation conducted by the institute revealed a number of tendencies, which suggest optimism. And in this case, it is not so important that these tendencies are manifested thus far at the level of expert discourse, and not of global political solutions. They reflect those inevitable changes, which occur in the world and which will sooner or later require an accurate response and adequate solutions.

1. World Ideology. The expert community of the developed and developing world think in general categories and are not divided into those of opposing camps. With all the disputes on suggestions to economic and political questions, most professionally prepared people are not disposed to conflict and the search for an acceptable solution, for all participants in the global discussion is possible. Peace is a conventional value. It is not thus far advanced by any significant means, and reamains in the minds as *in an ideology of war* (type of communism or national-socialism). A peaceful installation of intellectuals gives hope for the fact that even with a clash of interests, a will to search for a peaceful solution of global issues will prevail.

2. G20 Process – a New Kind of Interaction. The leaders of the countries of the G20, which organized discussion for working out solutions by overcoming the crisis, stated: *A Global crisis requires a global settlement*. Continuing G20 thought, it is necessary to recognize: global settlement requires new mechanisms of decision making. The process of the G20 showed that the direct interaction of governments is considerably more successful than working *through mediators* as the people related to international institutions of the past. Those organs, which professionally dealt with concrete problems of regulation of financial markets and special *working groups* of governments, proved to be most useful. They proved to be considerably less effective than world institutions of development, which possess extensive financial possibilities, but which carried out a surface analysis of the proceeding processes, which did not make it possible to formulate any useful or practically applied recommendations regarding overcoming the crisis. The G20 – this is the attempt to create a new mechanism of solutions at the global level. An action plan on the output from the global financial crisis, accepted by the London Summit, provides for the creation of a new international organ – the Financial Stability Board (FSB) on the basis of the Financial Stability Forum. The new organ is assigned the largest place in the post-crisis global financial architecture.

3. World Growth in a Diverse Economic Model. In the course of realizing anti-crisis actions in different states an understanding in the fact that there is no universal prescription and no ideal economic model for all. Understanding this fact gives carte blanche on the innovation to governments. The world crisis already became a *generator of innovations*. As a result, the achievments of anti-crisis actions in the search for new models of globalization and interaction with business, new technologies in supporting populations, new sizes of international unions and so forth are a subcritical tendency conducted in the unification of economic models, the crisis was capable to create *an explosion of diversity*. In this case, a new idea of globalization: the adoption of the best experiences and the interception of discontinued technologies. Predicting a *new* risen strenth, had not been previously possible, hence the considerable attention of the experts to other societies, large is openness and larger a curiosity. The acknowledgment *of the plurality of world* - the important principle of the forming ideology in the 21st century, which is differed from the formal principle *of tolerance*. Tolerance – the acknowledgment of *the right to exist with others*, plurality of worlds – the acknowledgment *of the right to lead of others*.

4. New Economic Democracy. Demand on innovation equalizes the chances of large and small, *old men* and *young*. Small business frequently occurs more competitive than business giants. Accurately also, those states, which were considered as the periphery of world development, obtained chance to leadership. The increased world competition objectively creates *an axis of innovational breakthrough* with the start of mobilized business and most mobilized states. Not only GDP volume or the volume of international liquidity, military power or natural resources become the factors of success. An excellent illustration in this plan is the appreciation of anti-crisis initiatives and political potential not only of the largest economies of the world, but also such countries as, for example, Kazakhstan, a small state in the realm of the former USSR. Capital in the 21st Century is the initiative of states and business at the global level.

Responsibilities of the G20

The USA and the countries of Europe played the leading role in working out the main decisions of the London Summit and in the passed discussions. In this situation it is important to mention that the USA and Europe have essentially different approaches in a number of positions. These differences should not be reduced to differences as an anglo-saxon and continental law, just as to differences in the models of financial systems in the USA and in the countries of Europe — they themselves, in a much larger measure, are connected with a difference in approaches to the solution of the problems of the national economy.

In conclusion the need for forming elements of regulation and supervision at the supranational level became one of the meaningful results of the summit. However, to create completely adequate global financial regulation, a level of globalization must be reached, that is impossible in view of the presence of the opposing national interests of different countries. Therefore, under contemporary conditions, only the introduction of separate elements of global regulation and supervision on the financial markets is possible.

However, the majority of world experts, including the western world, expected from the process of the G20 more fundamental changes in the world economic and financial order. But here one should consider that the G20 solved only those problems, which in principle could be set today into the agenda in view of the presence of consensus on these questions on the majority of the representatives of the G20, and it did not exceed the limits of this agenda. These questions in majority are in the field of the financial markets and financial institutions, which is completely logical, taking into account the leading role of financial factors in the development of the global financial and economic crisis. Therefore the G20 was concentrated, in the first turn, on questions of overcoming sufficiently obvious failures of the financial market. The tasks of this process thus far did not enter an analysis of deeper and longer-term factors, which form a danger of a potentially more destructive global civilization crisis.

Meanwhile, the wide expert community expected deeper and more fundamental solutions of the G20, in which were involved countries with the largest economies and the largest financial markets. Therefore it is necessary today, in our opinion, to continue development of measures that will prevent the catastrophic scenario and help introduce more efficient and fair post-crisis global financial order.

Today, it is obvious for the majority of economists that the solutions accepted by the summit in London are only intermediate, they remove the strongest failures of the contemporary global financial system, but they do not contribute to the resolution of the more fundamental contradictions accumulated by the global economic system, which will be aggravated within the next few years. Therefore, the critical observations of the multinational expert pool, obtained in this investigation, are represented, a quicker, by the guarantee of the fact that the experts are ready to participate in the development of solutions, directed towards averting the catastrophic consequences of a future civilization crisis. Our Institute supported by its international expert network also intends to conduct further analytical research and develope recommendations in this direction.

Perpendicular Position of Russia

One should separately stop at the noticeable non-coincidental position of Russia and the basic directions and trends of the discussions within the framework of the G20. In this connection the following example is very significant: 57% of Russian experts do give a negative answer to the question “do they accept the passed summit resolutions of the G20 on the fundamental solutions, which are capable of leading the world economy out of the crisis?”, whereas in experts from the developed countries this answer is encountered at 33%, and from those of developing - 45% of the cases. Possibly, *the perpendicularity* of the position of Russia is connected with the fact that the Russian expert community has not rid itself of a *provincial complex* with respect to the West. A similar almost two-fold difference in the estimations of experts from Russia and developed countries means that we live on two different planets, we principally differently evaluate the same results and we do not deliberately understand each other. This is the problem of those, who are in the minority. But the one who is in the minority here — is Russia.

From the other side, Russian experts are often subjected to the ideology *of defeatism* and are inclined to lower the evaluation of all the remaining expert community, of the potential of their country and other leaders of the developing world, their ability to influence the adoption of global settlements and possibility to play a more noticeable role in a new financial architecture of the world.

At the same time, the position of the Russian State is, on the contrary, winning. Russian experts thus far did not realize the scale of the participation of our own country in the world game. The official proposals of Russia to the G20 Summit that were named as world experts were interesting in number. When world experts proposed to compose a rating of those countries that proposed the most interesting anti-crisis solutions in the financial sphere, Russia proved to be five of the leaders, together with China, the USA, France and Great Britain. This means that the Russian proposals, which are dispersed within the basic direction of discussions of the G20, were heard and evaluated. Proposing the solutions, which correspond to the interests of the groups of countries with the developing markets as a whole.

Urgent Order of the Day

Now the *ball is on the side of the developing world*, and the initiative must be coming from young industrial countries, which must come out with their platform of economic development in the 21st century.

This report determines the issues of the most importance to countries with developing markets, but that remained outside the G20 discussion. We consider that today, the most acute and vital problems, which discriminate against developing countries, are the ineffectiveness of the contemporary world currency system, based on the dollar, and the inadequacy of investment rating assessment of countries with developing financial markets.

The very first studies were made regarding the future of a global currency system in the present report. In particular, seven possible versions of a future global currency system are proposed, of which, four are analyzed in depth:

- The most probable in our opinion, – the poly-currency system and the SDR based system;
- The most frequently discussed – the regional reserve currencies system;
- The most effective system from the point of view of averting a civilization crisis is a multi-commodity standard, in our opinion.

However, as a whole, the issue of the future currency system in a post-crisis world, given the entire complex of questions in the inadequacy of investment rating assessment of countries with developing financial markets, need an urgent, deep and detailed analysis in the course of future studies, which we are intending to accomplish.

In today's world model are laid the codes, which lead to the repetition of another economic crisis into increasing the scale and severity both political and social. It is obvious that the piecing of the problem of *economic holes* has not been resolved. The leadership of the USA, nor China or the European Union also hasn't solved the problem at this stage. The choice of the 21st century is – this is not a choice between wealth and poverty. In the agenda the choice between war and peace was mentioned. A peace encountered with a fundamentally new appeal, and the crisis of 2008 - 2009 showed that humanity is only beginning to understand the laws of a functioning of the global financial and economic system, which changes the very concept of effectiveness. Real global peace can only be developed with the condition of a global consensus and global fairness - fairness for all. Therefore, in today's agenda stands a choice between solutions, effective from the point of view of the *golden billion*, and by the fair solutions, effective for the entire world, including countries of the developing world. The first led to an accumulation of disproportions, strengthening of confrontation, and, in the final analysis - an apocalypse. The second will ensure a harmonious development of humanity.

APPENDIX

Appendix 1. The List of Analyzed Documents

I. The G20 Documents.

1. **Decisions of the Group of Twenty on the London Summit, April 2, 2009 and the Washington Summit, November 15, 2008.**

   1.1. London Summit Communiqué (Russian Version - "Action plan on the output from the global financial crisis").

   1.1. London Summit Communiqué Annex 1 – Strengthening the financial system (Russian version - Appendix 1 "Statement about Strengthening of the financial system").

   1.2. London Summit Communiqué Annex 2 – Delivering resources through the IFIs (Russian Version - Proposal 2 "Statement about the direction of resources through international financial institutions").

   1.3. Explanatory guide to the communiqué.

   1.4. Declaration on delivering resources through financial institutions, April 2, 2009.

   1.5. Summit on financial markets and the world economy. November 15, 2008. Declaration (Washington Summit November 15, 2008).

2. **Working materials, Group of Twenty (Materials of working groups and group of finance ministers).**

   2.1. G20 Working Group 1: Enhancing sound regulation and strengthening transparency.

   2.2. G20 Working Group 2: Reinforcing international cooperation and promoting integrity in financial markets.

   2.3. G20 Working Group 3: Reform of the IMF.

   2.4. G20 Working Group 4: The World Bank and other multilateral development banks.

   2.5. G20 Finance Ministers Communiqué.

   2.6. G20 Finance Ministers Communiqué Annex – Restoring Lending.

   2.7. G20 Finance Ministers Working papers.

   2.8. Group of Twenty. Meeting of the Deputies. January 31–February 1, 2009. London, UK.

   2.9. Progress Report on the Immediate Actions of the Washington Action Plan prepared by the UK Chair of the G20.

   2.10. G20 Finance Ministers' and Central Bank Governors' Communique – March 14, 2009.

   2.11. Annex to Communique - G20 Finance Ministers and Central Bank Governors – March 14, 2009.

3. **Materials of independent countries.**

   3.1. The G20 Study Group Report On Global Credit Market Disruptions. Paper Prepared by Australia.

   3.2. Proposals of the Russian Federation to the summit "the Groups of Twenty" in London (April 2009).

   3.3. US Financial Stability Plan.

   3.4. The Emergency Economic Stabilization Act of 2008.

   3.5. Preparation of the G20 London Summit: Spanish contribution.

   3.6. Turkey: Civil Society Recommendations to the London Summit.

   3.7. Impact of the Crisis on African Economies – Sustaining Growth and Poverty Reduction. African Perspectives and Recommendations to the G20. A report from the Committee of African Finance Ministers and Central Bank Governors established to monitor the crisis.

II. Documents of International Financial Organizations.

4. Documents of the Financial Stability Forum.

4.1. FSF Issues Recommendations and Principles to Strengthen Financial Systems. April 2, 2009.

4.2. FSF Principles for Cross-border Cooperation on Crisis Management, Financial Stability Forum, April 2009.

4.3. Report of the Financial Stability Forum on Addressing Procyclicality in the Financial System, Financial Stability Forum, April 2009.

4.4. FSF Principles for Sound Compensation Practices, April 2009.

4.5. Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience. Update on Implementation. April 2, 2009.

4.6. Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience. Follow-up on Implementation. October 10, 2008.

4.7. Ongoing and Recent Work Relevant to Sound Financial Systems.
Cover note by the Secretariat for the FSF meeting on September, 29-30 2008.

4.8. Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience, Financial Stability Forum, April 2008.

5. Documents of the OECD.

5.1. OECD Strategic Response to the Financial and Economic Crisis.
Contribution to the Global Effort.

5.2. Financial Crises: Past Lessons and Policy Implementations. By D. FurcerI and A. Mourougane. ED WP No 668.

6. Documents of the GFS.

6.1. Global Financial Stability Report. April 2009.

6.2. Global Financial Stability Report. October 2008.

6.3. Bulletin about the state of markets (application to the report about the global financial stability dated October 2008.), on January 28, 2009.

6.4. O. Blanshard. Cracks in the system. // Finance & Development. December 2008. Release 45. Number 4.

6.5. N. Sakas. Averting future crisis. // Finance & Development. December 2008. Release 45. Number 4.

6.6. World Economic Outlook Update. Global Economic Slump Challenges Policies.
January 28, 2009.

6.7. J. Boughton. A New Bretton Woods? // Finance & Development. March 2009. Volume 46. Number 1.

7. Documents of the IOSCO.

7.1. Hedge Funds Oversight Consultation Report, March 2009.

7.2. International Cooperation in Oversight of Credit Rating Agencies, Report of the Technical Committee of IOSCO, March 2009.

7.3. A Review of Implementation of the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies, Report of the Technical Committee of IOSCO, March 2009.

7.4. IOSCO Open Letter to G20 Meeting, November 2008.

7.5. Private Equity - Final Report, Report of the Technical Committee of IOSCO, June 2008.

7.6. Code of Conduct Fundamentals for Credit Rating Agencies, May 2008.

7.7. Report on the Subprime Crisis - Final Report, Report of the Technical Committee of IOSCO, May 2008.

8. **Documents of the World Bank.**

8.1. World Bank Governors Approve Governance Reforms, Adding Board Seat for Africa. Press Release No:2009/220/EXC

9. **Documents of the Bank of International Settlement.**

9.1. Supervisory guidance for assessing banks' financial instrument fair value practices - final paper. April 2009.

9.2. Nout Wellink. Basel Committee initiatives in response to the financial crisis. March 2009.

9.3. Range of practices and issues in economic capital frameworks. March 2009.

9.4. Capital flows and emerging market economies. CGFS Publications No 33. January 2009.

9.5. BIS Quarterly Review, March 2009.

III. Other Documents.

10. **Documents of the EU.**

10.1. The High-Level Group on Financial Supervision in the EU. Report chaired by Jacques de Larosiere.

10.2. Communication for the Spring European Council. Driving European recovery.

10.3. Proposal for a Regulation of the European Parliament and of the Council on Credit Rating Agencies, Commission of the European Communities, Brussels, 12.11.2008, COM (2008) 704 final, 2008/0217 (COD).

11. **Documents of the Associations (self-controlled organizations) of Professional Participants in the Financial Markets.**

11.1. Briefing for the London Summit by Securities and Derivatives Industry Representatives. LIBA, SIFMA, ICMA, ISDA, FOA, IIAC. February 17, 2009.

12. **Other articles and brochures.**

12.1. Article of the President of the Republic of Kazakhstan N. Nazarbayev “Keys from the crisis” (Rossiyskaya gazeta, on February 2, 2009).

12.2. The Future World Financial Architecture and the Place of Russia in it. Materials of the Round Table. - M.: TSRFR, 2009.

Appendix 2. The Main Decisions of the G20 London Summit (Description)

The main solutions of the G20 in London are brought in a Communiqué (Action Plan on the Output from the Global Financial Crisis - London Summit communiqué) and two applications to it: Appendix 1 "Statement about strengthening the financial system" (London Summit communiqué annex of 1 Strengthening of the of financial of system) and Appendix 2 "Statement about the direction of resources through international financial institutions" (London Summit Communiqué Annex is the 2nd Delivering of resources of through that of the IFIs).

In the Action Plan on the Output from the Global Financial Crisis (further the Plan) the leaders of countries *of the G20* have manifested that the world encountered the most serious economic problem in modern history. They declared: *The global crisis requires a global settlement*.[54]

The purposes of this decision are determined as follows:

- to restore confidence, growth rates and work sites;
- to restore the financial system and to renew credit;
- to strengthen financial regulation in order to return confidence;
- to ensure the financing and reforming of international financial institutions for overcoming of the current crisis and averting of the crises in the future;
- to encourage global trade and investments and to forego the protectionism;
- to ensure steady economic lift.

The agreed terms and cost of the plan are evaluated as follows:

- the trebling of resources, by which is available to the IMF, and its increase to 750 billion US dollars;
- the support of new assignments of Special Drawing Rights (SDR) in the size of 250 billion US dollars;
- isolation of at least 100 billion US dollars in the support of additional crediting along the line of the Multilateral Development Banks;
- the guarantee of support of financing trade in the volume of 250 billion US dollars;
- equipping an additional gain from matched sales of gold by the IMF for financing the poorest countries on favorable terms - for the sum into 1.1 trillion US dollars.

In the direction of *Restoration of growth and employment it has been agreed*:

- on the unprecedented fiscal measures for retaining millions of work sites (5 trillion US dollars prior to the end of 2009);
- on conducting by the Central Banks of the policy of the stimulation of economic growth;
- on the rendering of essential complex support to banking systems for the purpose of the guarantee of liquidity, recapitalization of financial institutions and adoption of decisive measures for regulating of problem of poor quality active memberships.

The leaders of the G20 assume that as a result of the achievements of these understandings a world-wide increase in real expression will be renewed toward the end 2010, when its rates exceed 2 percent.

In the direction of strengthening *of the Strengthening of financial supervision and regulation agreement on the following basic principles have been achieved*:

- each country must ensure the reliability of its internal system of financial regulation;
- to attain much larger solidarity and system collaboration between the countries and to create a system of internationally matched high standards, which is required in a world financial system;
- to stimulate the fairness of solutions, honesty and transparency, to guard from risk the entire financial system, to soften the consequences of the financial and economic cycle, to reduce dependence on the unjustifiably risky sources of funds and to prevent making excessively risky decisions;
- to protect users and investors, to support market discipline, to reduce the scales of regulating arbitration.

[54] *In further comments on the main G20 decisions we will focus on the decisions that we find to be the most important.*

For purposes of realizing of information principles an action plan is prepared, which includes the following solutions:

- to create a new Financial Stability Board (FSB) with an extended mandate, as a the successor of the of Financial Stability Forum (FSF) in the composition of all countries of the G20, the countries of FSF, for Spain and the European Commission;
- FSF should collaborate with the IMF for guaranteeing early warning of the macroeconomic and financial risks and the measures necessary for their elimination;
- to reconstruct national control systems in such a way that our institutions of authority would be able to reveal and to allow macro-prudential risks;
- to enlarge the regulation and supervision of all systematically important financial institutions, tools and markets;
- to support and to carry out life rigid new principles FSF, which are concerned with payment and compensation;
- to take measures for an improvement in the quality, volume and international ordering of capital within the framework of the banking system - future regulation must prevent the excessive use of borrowed capital and require the advance creation of reserves;
- to take measures against non-collaboration jurisdictions, including against tax havens;
- to improve the standards of evaluation and planning and to prepare a united arch of high-quality global standards of financial calculation;
- to extend regulating supervision and registration to credit rating agencies.

In the direction on the Strengthening our global financial institutions they agreed:

- to provide additional resources in the volume of 850 billion US dollars through global financial institutions to support an increase in growth in the emerging market countries and developing countries (due to an increase in resources of the IMF in the size of 250 US billion dollars, the expansion of new mechanisms of adopting the sum of 500 billion US dollars, increase in the credits volume is not less than 100 billion US dollars from the side of Multilateral Development Banks).
- to increase the capability of international financial organizations, their effectiveness and legitimacy with the orientation for the more long-term outlook (due to their reformation and modernizations to, including a change in the quota system of the IMF in the order of decision making; to enlarge the participation of managers of the IMF in the determination of s strategic direction of activity of the IMF; to carry out of reform into the life of the World Bank; leaders and the elder leading component of international financial institutions should be assigned in the process of open, transparent selection taking into account their merits; to develop proposals relative to further reforms, directed toward an increase in the effectiveness of reaction and capability for the adaptation of international financial organizations);
- to reach a new global consensus regarding the basic values and principles, which will stimulate steady economic activity.

In the direction of *the Fight against protectionism and promotion of world trade and investments* it has been agreed:

- to abstain from the erection of new barriers for investments or the trade in goods and services, incompatible with the rules of the World Trade Organization (WTO);
- to minimize any negative action on the trade and investments from the side of domestic policy, including financial- budgetary policy and measures for the support of the financial sector;
- to allocate as a minimum 250 billion US dollars for the subsequent two years for strengthening of the system of financing trade with the aid of our establishments for the crediting of export and investment agencies and MBR.

In the direction of *the Ensuring valid and steady economic growth for all* a set of measures for stimulation of the poor countries development of a number proposed.

The detailed plan is contained in two attachments, one of which details the measures, directed towards the improvement of the global financial market regulation, and the other describes the decisions on the allocation of additional financial resources to international financial organizations.

In the Declaration on the Financial System Strengthening the leaders of the G20 agreed on 8 major reforms.

1. The first place is given to the reform of the Financial Stability Forum, that provided the recommendations that were used as the basis in the majority of decisions on the reformation of the global financial sector. The Forum demonstrated its effectiveness, ability to foresee main global risks and to recognize most essential failures in the market. Therefore, it was decided to strengthen the role of this institution.

The leaders of the G20 agreed that the Financial Stability Forum (FSF) should be enlarged, after allotting its wider mandate with respect to the guarantee of financial stability, and recreate on a more durable institutional base, after enlarging its possibilities as the for the Financial Stability Board (FSB)[55]. It was decided to activate joint operation between the FSB and the IMF so that the role and the authorities of one of them would supplement the role and authorities of the other.

2. The second reform concerns the principles of international collaboration. The agreed terms about the creation of joint supervisory institutions for important trans-border companies; on the immediate beginning of the application of the FSF principles for regulating of trans-border crises; by the forces of the IMF, the FSF, the World Bank and the BKBN to develop an international basis for regulating conflicts with the participation of transnational banks; by the forces of the IMF and the FSF to take measures for the early warning of crises.

3. Within the framework the reforms of prudential regulation, 8 points were outlined, among which the most important are:

- a more flexible establishment of minimum volumes of capital of financial organizations;
- an establishment for the banks to create requirements in periods of favorable situations of reserves, which they can use with worsening in the economic situation;
- the requirements for capital, based on risk, must be supplemented with a simple index, which must consider extra-balance risks;
- to enlarge the stimulI of the control of risks in the sphere of security, including the introduction of norms of a portion of basic securities, that remained with the issuer of the securitized products, for purposes of the retention of a part of the risk by the initiator of security and reduction of the risks to investors;
- all member nations of the Group of Twenty should be gradually accepted and established by agreement under BASEL II basic requirements for capital.

4. The reform in the sphere and scope of regulation provides for its expansion. All system-forming financial institutions, markets and instruments must be subject to proper regulation and supervision. In particular, it is necessary to modernize national control systems in such a way that the corresponding institutions could reveal and consider macro-prudential risks on scales of entire financial systems. Special attention in supervision will be given to the large and complex financial institutions. It is necessary to allot national regulatory authorities on the collection of information with respect to all system-forming financial institutions, markets and tools, in the close collaboration at the international level.

A decision made about the fact that the hedge funds and their managers that previously remained out of the sphere of regulations and also of supervision, had to pass registration and regularly present appropriate information to the regulatory institutions or controls. If necessary, the process of registration must be an observed requirement about the minimum volume of capital.

Decisions have been about the improvement of the organization of the markets for credit derived tools, in particular, by means of the creation of central clearing houses, which are subject to effective regulation and supervision.

5. The reform of the practice of payment of rewards in large financial institutions is aimed at corresponding to the long-term objectives of companies and avoidance of superfluous risks. Payment conditions of the rewards, including of rewards, must properly consider risks, and graph and structure of payments must be determined taking into account the entire the life cycle of risks. Payments must not be produced for short time intervals when risks bear a long-term nature.

6. The reform of relations with *tax havens* and jurisdictions, which are non-collaborative, provides to accept the International standard with respect to the exchange of information between countries; to take the matched

[55] *For more detailes on the Financial Stability Board see the Chapter 3 of the Report.*

measures against those jurisdictions, which do not observe international standards with respect to transparency in the region of taxes; to activate a process of evaluating the fulfillment by the jurisdictions of standards in the region ML/TF.

7. The reform of the financial reporting standards provides that the rating of financial instruments must consider their liquidity and possible periods of investment; the standards of reporting with respect to financial instruments will be simplified; more total reflection in the account of possible credit losses will be provide for; more advanced standards of financial accounting will be developed with respect to the formation of reserves, extra-balance risks and evaluation uncertainty, etc.

8. Reform of the credit rating agencies regulation assumes the realization of more effective supervision of the activities of credit rating agencies[56].

In the statement about the direction of the resources through international financial institutions the decisions concerning allocation of additional funding to international financial organizations and determined measures for an increase in the effectiveness of their activities are described.

[56] *For more details on the reform of credit rating agencies see the Chapter 3 of the Report.*

Appendix 3. The List of Experts, Who Have Participated in the Survey

1. Abdullah, Daud Vicary. Consultant, Islamic Finance Centre, International Auditing Company, Deloitte. Malaysia.
2. Acharya, Viral. Professor of Finance, Leonard N. Stern School of Business, New York University, USA.
3. Acma, Bulent. Professor of Economics, Head of the Chair of Economics, Anadolu University, Turkey.
4. Aganbegyan, Abel. Academician, Russian Academy of Sciences, Corresponding Member of the British Academy of Sciences, Russia.
5. Agosin, Manuel. Professor of Economics, Department of Economics, University of Chile.
6. Aizenmann, Joshua. Professor of Economics, University of California, USA.
7. Al-Ebraheem, Yousef. Economic Advisor, Economic Advisor at the Amiri Diwan in the capacity of Minister, Former Minister of Finance, Kuwait.
8. de Almeida, Paulo Roberto. Diplomat, Ministry of International Affairs of Brazil, Professor of Economics, University Center (UniCeub), Brazil.
9. Alpysbaeva, Sara. Head of the Economic and Financial Instability Early Response Center, Kazakhstan.
10. Altug, Sumru. Professor of Economics, Centre for Economic Policy Research, Koc University, Turkey.
11. Ananta, Aris. Independent Economic Researcher, Indonesia.
12. Apokin, Alexander. Expert, Centre of Macroeconomic Analysis and Short-term Forcasting, Russia.
13. Araujo, Felippe Cademartori. Economist, Nagoya University, Japan.
14. Aris, Ben. Chief Editor and Publisher of the Business New Europe Magazine, Germany.
15. Arrak, Andres. Director, Mainor Business School. Estonia.
16. Bailey-Smith, Stephen. Head of Research CEEMEA (Central/Eastern Europe, Middle East, Africa) Standardbank, UK.
17. Barabanov, Michael. Chief Editor of the Moscow Defense Brief Magazine, Russia.
18. Bello, Walden. Former Analyst, Institute of Social Studies, Chulalongkorn University, Member of Philippine Parliament. Thailand.
19. Belobrovcev, Vitaly. Professor of Economics, University of Tallinn, Estonia.
20. Benayon, Adriano. Professor of Economics, University of Brazil. Economic Advisor, Senado Federal, Brazil.
21. Bergstrand, Jeffrey H. Professor of Finance, Mendoza College of Business at the University of Notre Dame, USA.
22. Bhattasal, Deepak. Chief Economist, the World Bank, USA.
23. Blinov, Andrey. General Director, of the Institute of Russian Studies, Editor-in-Chief, Expert Ukraine Business Magazine, Ukraine.
24. Bo, Zhiyue. Senior Researcher, East Asian Institute, National University of Singapore, Singapore.
25. Boedeker, Stefan. Partner, Resolution Economics Company, USA.
26. Bofinger, Peter. Professor of Economics, University of Wurzburg, Germany.
27. Bonilla, Eugenio Diaz. Executive Director, Inter-American Development Bank, Argentina.

28. Bowers, Gerald. General Director, British Business Club, Ukraine.

29. Bradford, Colin. Nonresident Senior Fellow, Global Economy and Development, Brookings Institute, Former Chief Economist at the U.S. Agency for International Development, USA.

30. Brett, Alistair. Expert, Expert Group on Science and Development, the World Bank, USA.

31. Buiter, Willem. Professor of European Political Economy, European Institute, London School of Economics and Political Science, Chief Economist, European Bank for Reconstruction and Development, UK.

32. Burtseva, Alla. Columnist, Moscow Tender Magazine, Russia.

33. Bykov, Victor. General Director, the NT-MDT (Instrumentation for Nanotechnologies), Russia.

34. Carrasco, Lorenzo Bazúa. Director, Ibero-American Solidarity Movement, Brazil.

35. Chernyshov, Alexei. Shareholder, Cherus Group of Companies, Russia.

36. Chossudovsky, Michel. Director, Centre for Globalization Studies, Canada.

37. Chubrik, Alexander. Economist Exploritory Centre, Institute of Privatization and Management (IPM), Belorussia.

38. Chuksin, Nikolai. Economist, Ex-Director General, Agrochim Company, Russia.

39. Conway, James. Financial analyst, BHP Billiton, Australia.

40. Corm, George. CEO, Private Consulting Company, Former Minister of Finance, Lebanon.

41. Dabrowsky, Marek. Professor of Economics, President, Center for Social and Economic Research in Warsaw, Poland.

42. Davidson, Paul. Chief Editor, Journal of Post Keynesian Economics, Professor of Economics, Bernard Schwartz Center for Economic Policy Analysis, The New School, USA.

43. Dikushin, Andrey. Lecturer, London School of Business, UK.

44. Dombrovski, Vyacheslav. Associate Professor, Baltic International Research Center for Economic Policy Studies (BICEPS), Latvia.

45. Drozzhilov, Alexei. Portfolio Manager, International Finance Corporation, Advisor, the Central Bank of the Russia, USA.

46. Dubnov, Vadim. Columnist, Russia.

47. Dudikhin, Victor. Associate Professor, Russian Correspondence Finance Institute, Russia.

48. Elberse, Paul J. Director and Partner, FicusCapital, Uruguay.

49. Evenett, Simon. Professor, Swiss Institute of Economic and Applied Economic Studies (SIAW), Switzerland.

50. Faria, Luiz Augusto Estrella, Professor, Federal University of Rio Grande do Sul, Brazil.

51. Fernandes, Luiz Cezar. Manager and Main Shareholder, MTTG Holdings, Brazil.

52. Filonovich, Sergey. Dean, Higher School of Economics, Russia.

53. Galal, Ahmed. Executive Director and Director of Research, the Egyptian Center for Economic Studies (ECES), Egypt.

54. Gaponenko, Alexander. Director, European Institute of Research, Latvia.

55. Garcia, Marcio. Professor of Economics, Catholic University in Rio de Janeiro, Brazil.

56. Gazizulin, Ildar. Senior Economist, International Centre for Prespective Studies, Ukraine.

57. Geets, Valery. Director, Institute of Economics, National Academy of Sciences of Ukraine.

58. Giorgiadi, Vadim. Director, Zenteq am Armenia Company; Vice President, Renderx company, USA, Armenia.

59. Goldman, Marshal I. Co-Director, Davis Center for Russian and Eurasian Studies, Harvard University, USA.

60. Golubov, Anatoly. Chief Editor, Rus.delfi.lv, Latvia.

61. Goryaev, Alexei. Professor, Russian School of Economics, Russia.

62. Gossen, Juan. Editor, Department of Economics: Diario hoy, Argentina.

63. Granvill, Christopher. Managing Director, Expert Analytical Agency, Trusted Sources, UK.

64. Grinberg, Ruslan. Director of Institute of Economics at Russian Academy of Sciences, Russia.

65. Grigorev, Oleg. Vice President, Expert, Center NEOKON, Russia.

66. Grisyuk, Sergey. Chairman of the Board of Directors, Arktageiya Holding, Chairman of the Board of Administration, Aspandau Foundation for Research and Education, Kazakhstan.

67. Hachatron, Arutun. Executive Director, Information Center Noyan Tapan, Armenia.

68. Hakamada, Shigeki. Professor, Aoyamagakuin University, Japan.

69. Halpern, László. Senior Scientific Researcher, Hungarian Academic Institute of Economic Science, Hungary.

70. Halushka, Andrij. Senior Analyst, Credit Agricole Corporate and Investment Bank, UK.

71. Hamada, Shingo. Principal Investigator, Consulting Trilogia, Japan.

72. Hamid, A. Huzaime Bin Abdul. Independent Researcher, Malaysia.

73. Hardouvelis, Gikas A. Chief Economist, Eurobank EFG, Greece.

74. Hashimoto, Tom. Specialist in International Relations, University of Tirana, Albania.

75. Hatani, Faith. Lecturer, University of Manchester, UK.

76. Herve, Kotto Epee Gilles. Committee Executive President, Association of Social Issues and Development (ASD), Cameroon.

77. Hikolsky, Alexei. Correspondent, Newspaper Vedomosti, Russia.

78. Hoffman, Mathias. Professor of Economics, Head of the Department of International Trade and Finance, Institute of Experimental Research in Economics, University of Zurich, Switzerland.

79. Hoshmand, Reza A., Phd., Professor of Economics, University of Hong Kong, Hong Kong.

80. Hsu, Sara. Founder and the Editor, Economicsofcrisis.com, USA.

81. Ignateva, Elena. Managing Director, Interbanking Cooperation and International Planning, SB-Bank, Latvia.

82. Jemio, Luis Carlos. CEO, Private Consulting Company, Grupo Integral SRL. Former Finance Minister of Bolivia and Chief Cabinet Economist, Former Representative of Bolivia to the World Bank, Bolivia.

83. Jensen, Donald. Science Officer, Center for Transatlantic Relations, Johns Hopkins University (SAIS), USA.

84. Jha, Raghbendra. Professor and Executive Director, Australia South Asia Reseach Centre, Australian National University (ASARC), Australia.

85. Jie, Yun. Director and Professor, Governmental Faculty of Administration, Institute of Political Research, Chinese Academy of Social Research, China.

86. Kaliev, Gani. Group Chairperson, AUIL, Kazakhstan.

87. Kalmykova, Mariya. Director, Consulting center, HAUFOR, Russia.

88. Kapur, Jagdish Chandra. President, Kapur Surya Foundation, India.

89. Keen, Steve, Professor of Economics, University of Western Sydney, Australia.

90. Koltashov, Vasili. CEO, Center of Economic Research, Institute of Globalization and Social Movement (IGSO), Russia.

91. Kononenko, Gennady. Expert, Department of Natural Resources, LG International Corp. Moscow office, Russia.

92. Kucherenko, Vladimir. Columnist, RP Monitor, Russia.

93. Kurmanov, Zhanat. Independent Director of Kazakhstan Deposit Insurance Fund, Kazakhstan.

94. Kuczynski, Michael. Professor of Economics, University of Cambridge, UK.

95. Li, Kui-Wai. Professor, City University of Hong Kong, Hong Kong.

96. Lietaer, Bernard A. Professor, Center of Resource Stabilization Development, Berkley University, Professor, Department of International Finance, University of Levena, Former president, Belgian Electronic Voting Systems, Belgium.

97. Lisovolik, Yaroslav. Chief Economist, Deutsche UFG, Russia.

98. Luiz Awazu, Pereira da Silva. Senior Economist, World Bank, Former Deputy of Finance of Brazilian International Business, Brazil.

99. Lutsenko, Igor. Chief Editor, Financist.org.ua, Ukraine.

100. Machicado Salas, Carlos Gustavo. Research Officer, Research Institute for Advanced Development Studies, Bolivia.

101. Magud, Nicolas. Professor, Oregon State University, USA.

102. Mallaby, Sebastian, Director, Center for Geoeconomic Studies, and Senior Fellow for International Economics, Council on Foreign Relations, USA.

103. Mallea, Rodrigo. Director of Diagnostico Politico, Argentina.

104. Mangunsong, Carlos. Researcher, Center for Strategic and International Studies (CSIS), Indonesia.

105. Marzetti, Maximiliano. Economic Researcher, University of Bologna, Italy.

106. Matrosova, Elena. Director, Center for Macroeconomic Research and Strategies Development, BDO Unicon, Russia.

107. Matuk, Farid. Independent Economist, Peru.

108. Matvienko, Konstantin, CEO, Ukrainian Corporation Strategic Consulting, Gardarika, Ukraine.

109. McCawley, Peter. Researcher, Faculty of Economics, National University of Canberra. Australia.

110. McNeish, John Andrew. Researcher, Chr. Michelsen Institute (CMI), Norway.

111. Mikhailov, Evgeny. Deputy Head of the Administration of the President of Russia, Russia.

112. Mistih, Mihail. Financial Consultant, Germany.

113. Moeller, Joergen Oerstroem. Senior Scientific Officer, Institute of South Asian Studies (ISEAS), Singapore.

114. Moiseev, Sergey. Director, Center for Economic Research, Moscow Financial Industrial Academy, Researcher, Committee of Bank and Banking Activities Council, Russia.

115. Moosa, Imad. Professor of Finance, Monash University, Australia.

116. Moskalenko, Daniel. Former Television Host, AO Habar, Kazakhstan.

117. Moughari, Zahra Karimi. Research Fellow, Academic Staff, University of Mazandaran, Iran.

118. Mukhin, Alexei. General Director, Center for Political Information, Russia.

119. Nadorushin, Evgeny, Chief Economist, IB Trust, Russia.

120. Nash, Roland. Managing Director, Co-Head of Equity Product Group and Chief Strategist, Renaissance Capital, UK.

121. Nikitin, Alexander. Director, Norum Private Equity Advisors Ltd, CapMan Group, Russia.

122. Nikitinskaya, Ekaterina, First Deputy, Chairperson, Chamber of the National Economic Council of Kazakhstan, Union of Atameken, Kazakhstan.

123. Nikolaev, Victor. Editor, Economic Department, News Paper, St. Petersburg Vedomosti, Russia.

124. Oksay, Mustafa Serhan. Kadir Has University Associate Proffessor of Political Economy, Turkey.

125. Orazali, Sabden. Director, Institute of Economics, Committee of Science, Ministry of Education and Science, Kazakhstan.

126. Orlov, Dmitri. General Director, Agency for Political and Economic Communications, Russia.

127. Osakovsky, Vladimir. Head of Strategy and Research, UniCredit bank, Russia.

128. Ostrovsky, Andrey. Deputy Director, Institute of the Far East (RAS), Russia.

129. Pachuliya, Merab. Director of GORBI Gallup International, Georgia.

130. Pahomov, Sergey. Chairperson, Committee of Governmental Borrowings of Moscow, Russia.

131. Panizza, Ugo. Division Chief, Debt Analysis, Economist, UN Conference for Trade and Development, Switzerland.

132. Patel, Bhaskar. General Director, Cybersoft Technologies, USA.

133. Pernia, Ernesto. Professor of Economics, School of Economics, University of Philippines, Philippines.

134. Pettis, Michael. Senior Associate, Carnegie Endowment for International Peace, Professor of Finance, Guanghua School of Management Beijin University, China.

135. Pineda, Mikka D. Lead Analyst for Markets, Monetary Policy and Asia, RoubinI Global Economics LLC, USA.

136. Ponomarev, Illya. Deputy, the State Duma of Russia.

137. Powell, Andrew. Chief Economist, Inter-American Development Bank, Argentina.

138. Pozuelo-Monfort, Jaime, Spain, Financial Economist.

139. Putilov, Evgeny. Vice-director, Ukrgazprompolis Company, Ukraine.

140. Qu, Bo. Researcher, Global Economic Governance Studies Program, UK.

141. Qushou, Bassem Hafes. Strategic Planner & Training Director, Al-Quds Open University, Palestine.

142. Raig, Ivar, Professor, Akademia Nord, Estonia.

143. Raimondi, Paolo. Economist, Economic Journalist, Italy.

144. Rajan, Ramkishen S. Senior Research Officer, Institute of Research of Southern Asia, National University of Singapore, Singapore.

145. Ramos, Leonardo César Souza. Professor, Pontifical Catholic University of Minas Gerais (PUC Minas), Brazil.

146. Rancier, Romain, Economist, Associate Professor, Paris School of Economics, France.

147. Rao, S.K. General Director, Administrative Staff College, India.

148. Rasov, Sergey. Political Columnist, www.politcom.ru , Kazakhstan.

149. Raynes, Sylvain. Founding Principal, R&R Consulting, USA.

150. Razin, Assaf. Professor of Economics, Tel Aviv University, Israel.

151. Ribakova, Elina. Head Economist Citigroup, Russia and the CIS, Russia.

152. Rochet, Jean Charles. Professor of Economics, Toulouse School of Economics (TSE), University of Social Sciences, France.

153. Rocholl, Jorg. Professor of Finance, European School of Management and Technology, Germany.

154. Ryabov, Andrey. Member of the Scientific Council, Moscow Carnegie Center, Russia.

155. Saint-Paul, Gilles. Professor, Toulouse University of Economics, Social Sciences, France.

156. Sapir, Jacques. Professor of Economics, School for Advanced Studies in Social Sciences, France.

157. Satpaev, Dosym. Director, Risk Assessment Group, Kazakhstan.

158. Savchenko, Yuri. Deputy Director, InterInvest, Russia.

159. Sharma, Sanjay. Strategy Advisor, Emerging Asia Company, Netherlands.

160. Shashko, Alexander. Lecturer, Faculty of Economics Belorussian State University, Chairperson, Council of Young Scientists, Belorussia.

161. Shepel, Alexander. President, Confederation of Labour of Russia, Russia.

162. Shlenski, Alex. Business Analyst, Consona ERP, USA.

163. Shushkovskiy, Vitaly. Director of Marketing, MegaPolice Capital Fund, Ukraine.

164. da Silva, Roberta Rodrigues. Professor of Economics, Brazilian Institute of the Capital Market, Brazil.

165. Simonov, Konstantin. Director General, National Energy Security Foundation, Russia.

166. Singh, Nirvikar. Professor of Economics, Co-Director, Center for Global, International and Regional Studies, University of California, Santa Cruz, USA.

167. Song, Frank M. Professor of Economics, Director, School of Economics and Finance, Beijing University, Hong Kong.

168. de Souza, Lúcio Mauro Vinhas. Chief, Department of Russian and Belorussian Economy and Finance, Directorate General for Economic and Financial Affairs, European Commission (DG-ECFIN), Belgium.

169. Storesletten, Kjetil. Professor of Economics, University of Oslo, Executive Director, Survey of Economic Science Magazine, Norway.

170. Sumit, Sengupta. Director, Kromber Company, India.

171. Sutyrin, Sergey. Professor of Economics, Sankt-Peterburg State University, Russia.

172. Takeshita, Seijiro. Director, Mizuho International plc, UK.

173. Tamirisa, Chandrashekar. Founder and General Director, Transformations LLC, USA.

174. Tikhomirov, Vladimir. Chief Economist, URALSIB, Russia.

175. Trifonov, Evgeny. Expert, Gazeta.ru, Russia.

176. Turzhanov, Serik. Vice-President, TPP RK, Kazakhstan.

177. Urban, Waltraut. Professor, Vienna Institute for International Economic Studies, Austria.

178. Ureta-Vaquero, Ivan, Senior Scientific Researcher, University della Svizzera Italiana (Lugano), Cambridge University, Switzerland.

179. Valentini, Sergio. Director, International Trade Palace, Lombardy, Italy.

180. Victorio, Bernadette, Economist, Institute of Analysis and Development, Asian Development Bank, Japan.

181. Vinogradov, Michael. Director, St .Petersburg Politics Foundation, Russia.

182. Vyshlinsky Gleb. CEO, Department of Market and Services Studies, Institute for Market Research (GfK), Ukraine.

183. Vlasov, Alexei. General Director, Informational and Analytical Centre for Studies in Post-Soviet Regions, Moscow State University, Russia.

184. Vyugin, Oleg. Chairman of the Board of Directors, MDM-Bank Russia.

185. Whalen, Christopher. First Vice-President and Managing Director, Creative Risk Management Solutions, USA.

186. Williamson, John. Senior Academic Researcher, Peterson Institute for International Economics, USA.

187. Woods, Ngaire. Professor of Economics, Oxford University, Director, Global Economic Governance Program, UK.

188. Yong, Choong-Siew. Columnist, Australian Finance Review, Australia.

189. Zaharchenko, Igor. Director for Economic Policy, Center for Strategic Research, Russia.

190. Zaiceva, Evgeniya. Accountant and Economist, Latvia.

191. Zamulin, Oleg. Professor of Economics, Sovkomflot, Program Director, Russian School of Economics, RSE, Russia.

192. Zlobin, Nikolai. Director, Russian and Eurasian Project, World Security Institute, USA.

Note. *31 survey participants have asked not to be named in the Final Report.*

We would be glad to receive your comments, remarks and criticism.

We would be interested in any offers, observations and experience.

We would be interested in any new information on the present topic.

We promise to share all the new information with the public.

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