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Financial governance in a multipolar world:
Before and after COVID-19

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Abstract
Financial governance, is defined as the self-regulated space where the participation of institutional investors and economic agents generate profits under an endogenous pattern determined by the central banks through interest rate management. On the assumption that the generated profits respond to a behavior pattern that characterizes by zero interest rates, an increasing creation of money-credit, and stable growth rates, the foundations of financial instability will deepen, and the fragility of financial circuits will become evident in the face of any adversity. The objective of this work is to demonstrate the enormous corporate and sovereign debt that countries reached within the framework of the economic policies implemented by central banks during the Great Recession period, before the arrival of COVID-19. The fragility and instability of financial markets and the asymmetry between financial assets and GDP not only manifested a speculative bubble but also announced a financial and economic crisis by the end of the second decade of this century.

Key words: Interest rate, monetary policy, central bank, policy objectives, crisis management, sovereign debt

Classification JEL: E43, E52, E58, E61, H12, H63

Financial governance in a multipolar world:

The before and after COVID-19

Alicia Girón[1]

> "The self-regulating market was unknown; indeed the emergence of the idea of self-regulation was a complete reversal of the trend of development. It is in the light of these facts that the extraordinary assumptions underlying a market economy can alone be fully comprehended" (Polanyi, 1944, pp.71).

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COVID-19 arrived at a bad time and triggered the future crisis and uncertainty, exactly at the beginning of the decade of the twenties of the current century.

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1. Introduction

The hegemonic project, strengthened after the end of the Cold War, based on the self-regulation of markets more clearly shows the emergence of a multipolar scenario in which the pillars of the Bretton Woods Monetary System blurred, due to the economic and financial crises that led to the insertion of countries to financial markets. Economic and financial deregulation and liberalization; free capital flow, carried out by large transnational banks; institutional investors, and central banks gradually defined the process of the internationalization of capital.

In order to achieve this work's objective, 'financial globalization' is defined as that space where the transactions of financial assets are carried out through the network of financial circuits, at an international level, and where investors carry out operations in a space called 'financial market'; in a time in which day and night are one. Since the internationalization of financial capital, globalization recreates the generation of speculative financial bubbles that constantly foster bank and business failures in the face of the ambition of rentier capital, supporting technological innovation, generating innumerable financial assets.

This long period, initiated during the 1980s, characterizes by the reforms of the Washington Consensus and is described by Bernanke (2004) as the 'Great Moderation' period; but let us not forget that stabilization periods sow the future of fragility and uncertainty. Just think back to the 'Minsky Moment' as referred to by one of Nomura's biggest investors: "…what you get is that Minsky moment: That stability ultimately breeds instability … a massive violence on upside moves" (Banerji y Zuckerman, 2020).

From 2008-2009, central banks applied fiscal incentives and countercyclical monetary policies which, at the juncture, were classified as the 'Keynesian' moment (Epstein, 2019). The economic growth reached, until before 2006, was fading when a sample of structured finance, or the so-called 'subprime' mortgages, collapsed together with the large overdue portfolios, which put the 'too big to fail, too big to rescue' banks in frank weakness. This is how the years of the 'Great Moderation' (a long period of stability) end along with the bankruptcy of Lehman Brothers, with a revival of the International Monetary Fund (IMF) and the international financial organizations.

The central bank's incentives, it was thought, would help rebound the global economy. On the contrary, the 'Keynes Moment' lasted only for a brief period. With the rebirth of the first green seeds in the economy, central banks initiated austerity. Sustained growth rates were not

achieved, even despite the large central bank's emergency programs to salvage the economy from deflation. The emerging countries, among which China, India, and Brazil stand out, continued to grow, but like developed countries, they gradually faded in the global map.

Central banks focused on returning to austerity. In fact, the participants in financial governance themselves criticized the speculative nature of financial governance by describing that “...in the aftermath of the crisis, many analysts, some in surprisingly high positions of authority in the world of financial governance, have argued that the financial sector has grown too big, that many of its activities have little, or even negative social value, and that the productivity and efficiency of the world economy could be improved if the financial sector were to shrink” (Epstein y Crotty, 2013). The dramatic Great Financial Crisis was based on financial innovation and the growth of the profits of the financial industry generated in the global financial market.

In this regard, Seccareccia mentions how “…conventional macroeconomic theory and policy are in a state of complete confusion ... noting that ... the desperate statements about the situation of those who were once all-powerful monetary policy came from those who had previously been some of the leading animators of the central banks” alluding to Summers. (Seccareccia, 2020).

Indeed, austerity and inflation targets, as well as zero interest rates, caused a decade of low international growth, sowing the foundations of the current crisis of unimaginable proportions. The years after the Great Crisis caused ‘The Age of Secular Stagnation’ (Summers, 2016). In the decade of the Great Recession, the relationship between central banks and bondholders, or ‘stakeholders’ of institutional corporations in the international financial system, was strengthened, therefore deepening the financialization process. In other words, the relationship between the central bank and the bondholders is confirmed in Keynes' words when he mentions that “…our reason for supposing that there is such a special connection arises from the fact that, broadly speaking, the banking system and the monetary authority are dealers in money and debts and notin assets or consumables” (Keynes, 1936:126).

This is how low-interest rates and easy credit, implemented in the last decade, “…years of low interest rates and easy credit have allowed companies across the board to borrow big, building a record $10 trillion mountain of debt” (Wirz y Timiraos, 2020). Lenders expect that the vast majority of the money will be repaid on time.

Countries' enormous corporate and sovereign debt, acquired by financial agents because of the policies of the central banks looking to maintain close-to-zero interest rates, influenced low productivity, which was used by large corporations to obtain speculative profits in the stock markets. The relationship between austerity policies and the reduction of public spending through self-regulated markets provoked that the money destined for social benefit was useful in maintaining financial speculation.

On the one hand, corporate and sovereign debt exceeded the limits concerning many countries' GDP. On the other hand, the lack of fiscal policy based on social spending for well-being evidenced deficiencies in the health systems infrastructure. The implemented measures to face the COVID-19 pandemic triggered a global crisis, a growing invasion of overdue portfolios in banking systems, and the expansion of public deficits, which were promoted by the central banks to avoid an economic collapse; as stated by Kristalina Gieorgeva's: it is “a crisis like no other” (IMF, 2020) and much deeper than the Great Depression of 1929.

2. Multipolar financial governance

Throughout the process of capital internationalization, the economic and financial integration transformed into a single development; consequently, those who lead financial governance are shareholders of institutional investors, that is to say, large financial and non-financial corporations supported by central banks. This process is characterized as a ‘financial regime’ by authors like Chesnais and as ‘neoliberalism’, ‘financialization’, or ‘globalization’ by others.

Some of the authors involved in the debate emphasize that neoliberalism “…is more than a face of globalization” (Duménil y Lévy, 2011, pp.35). Even when they refer to the notion of ‘financialization’, they mention that “it is loaded with ambiguities”. Other authors refer to it as follows: “…the financiarization has an inextricable relationship with the globalization and centralization of capital in its three forms and is an all-embracing, many faceted phenomenon. Behind broad indicators such as the high growth rate of financial assets, notably of government and corporate bonds, including their high proportion relative to domestic and world GDP, the exponential growth of derivatives and the scale of international financial trading, there is a range of important aspects related to the preeminence of the distinctive process of “financial accumulation” (Chesnais, 2019). In other words, the development of the last decades, as stated by Chesnais, is a ‘financial accumulation regime’.

The discussion around financial governance in a multipolar world presents different perspectives, among which Desai (2016) and Grabel (2017) stand out. On the one hand, Desai accurately mentions that "…the capitalist world has been multipolar for almost a century and a half, ever since the United States, Germany and Japan emerged as the first challengers to the inevitable dominance of Britain, the world's first industrializer" (Desai, 2016). Even the perspective that "…like free trade a century ago, globalization and the host of theories about US hegemony we can group together as hege-mony stability theory (HST) are economically cosmopolitan ideologies which dismiss the centrality of state's roles in economies. Today, however, the fast growth of the more or less strongly state-led emerging and BRIC economies is spreading productive power more widely" (Desai, 2016, pp.3). On the other hand, if we look at financial governance from the perspective of Grabel (2017) to contain the Great Crisis, the G20 and the Financial Stability Board (FSB) have carried out countless networks through institutional investors where 'stakeholders' take on vital importance in determining the interests of the shareholders.

A few months before the start of the Great Crisis of 2008-2009, through its director, the World Bank mentioned that "…Asia's stock markets now account for 32 percent of global market capitalization, ahead of the United States at 30 percent and Europe at 25 percent" (Zoellick, 2010, pp. 2). This distribution of assets, in Zoellick's opinion, ended with the disappearance of communism from the 'Second World' but also from the 'Third World' when developing "…a new, fast-evolving multipolar world economy – in which some developing countries are emerging as economic powers; others are moving towards becoming additional poles of growth; and some are struggling to attain their potential within this new system – where North and South, East and West, are now points on a compass, not economic destinies" (Zoellick, 2010, pp.1). The perception of the World Bank admitted, without any suspicion, that the hegemony of the United States blurred in the economic and financial angles and "… if the tectonic plates are shifting, multilateral institutions must shift too. The crisis has shown the possibilities of international cooperation, but it has also underscored the need to modernize and strengthen multilateral institutions to reflect a different world" (Zoellick, 2010, pp. 6)

Three decades after the Cold War, relations between China and Russia strengthened, which challenge the values of the western world, among which the value of democracy stands out. With a growing population and strong internal contradictions, India arises as a financial power within the region and its relations with Africa, although "…no one can know the

future. China and Russia—who are currently challenging, albeit in different ways, the Western liberal order—face difficulties at home and could become inward-focused and disengaged. Nonetheless, almost thirty years after the end of the Cold War, geopolitics looks like it is poised for another turn of the wheel that may not be as favorable to Western interests. This paper examines both the possible scenarios for how the emerging multipolar world order could evolve and transatlantic options. It makes the case that, depending on how the West plays its cards, traditional Western values could end up enduring even if an exclusively Western-led order does not" (Burrows, 2017, pp.2).

More than ever, the global dispute for hegemony is evident. The 'Made in China' brand flooded the productive and financial circuits, and it is increasingly evident that, from the Silk Road, there is a power under construction. The arrival of Trump and the 'American First' speech shows the fight over the control of power. However, for many, China is the dominant world power (Murray and Brown, 2018).

The ongoing crisis, the Great Depression of the 2020s, deepens the multipolarity and the questioning of both the 'global village' as the financial globalization and the financial governance itself in the hands of institutional investors and central banks. The United States is no longer the hegemonic country, therefore, leaving room for the "Silk Road" initiative started by China since the Great Recession. China emerges as the leader of economic development after the Great Crisis, through investments made both by land and by sea in the countries of Central Asia to Europe, India, and Africa, of course, including Latin America. For some authors, such as Burrows (2017), it resembles the United States-led Marshall Plan in Europe when it was devastated by World War II, but with very different interests.

South-South Cooperation and the emergence of post-hegemonic multipolar governance after the Great Crisis, question the current financial governance. Therefore, financial globalization requires the participants to change their decisions by making a balance among them across the votes that prioritize the United States and the G7 in international financial organizations. Global financial governance must necessarily become more inclusive, leaving aside the interests of the close relationship between central banks and debt and money traffickers.

Just before the current ongoing pandemic catastrophe, Gürcan (2019) wondered: "…what can be done to prevent these instabilities from culminating in a state of full-scale war and total chaos?" Undoubtedly, a difficult answer to provide at the beginning of the Great Depression of the 2020s, since it calls into question the 'global village' project and shows the fractured

globalization process. The Economist magazine mentioned "…even before the pandemic, globalisation was in trouble. The open system of trade that had dominated the world economy for decades had been damaged by the financial crash and the Sino-American trade war" (The Economist, 2020a).

Perhaps one could go back to what Amsden (2001), in his book *The Rise of the Rest*, mentioned when referring to the growth of those relegated from public policies, where the role of central banks, development banks, and National Financial Systems protected their nations with a Strong State.

3. Corporate debt

In the light of a decade, one may conclude that the availability of the credit granted by central banks, with zero interest rates, did not reactivate the global economy, and the relationships between the indebtedness of non-financial corporations and sovereign countries were not sufficient to boost the production circuits at rates similar to those reached before the Great Crisis.

Due to accumulated debt and interest payments, emerging countries present inhibited growth and a heavy debt burden. "Their debt burden has climbed from less than $1tn in 2005 to $3.2tn, according to the Institute of International Finance, equal to 114 per cent of GDP for frontier markets. Emerging markets as a whole owe a total of $71tn" (Smith y Wigglesworth, 2020).

In China, the supply of credit to the non-financial sector has grown significantly from $6.2 trillion to $35.8 trillion which, in proportion to GDP translates into a 141% to 257% increase (Table No. 1). China's debt has been a problem since the middle of the previous decade. Approximately "…two-fifths of new debt is swallowed by interest on existing loans; in 2014, 16% of the 1,000 biggest Chinese firms owed more in interest than they earned before tax. China requires more and more credit to generate less and less growth: it now takes nearly four yuan of new borrowing to generate one yuan of additional GDP, up from just over one yuan of credit before the financial crisis. With the government's connivance, debt levels can probably keep climbing for a while, perhaps even for a few more years. But not for ever" (The Economist, 2016).

Table 1: Selected Countries, Total Credit to the Non-Financial Sector
(Trillions dollars and GDP %)
2008-2019

Year	China		Japan		United States		Euro area	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%
2000	1.5	130.1	15.2	312.7	18.6	186.0	12.6	196.9
2001	1.6	124.8	13.3	315.0	19.7	187.7	12.7	199.4
2002	2.0	138.9	13.4	317.2	21.0	194.3	14.9	203.1
2003	2.4	150.3	14.3	316.9	22.6	201.6	18.7	207.5
2004	2.8	150.6	15.4	316.0	25.2	211.6	21.3	210.4
2005	3.1	142.7	14.7	314.8	27.3	214.7	22.0	216.3
2006	3.7	142.7	13.9	310.0	29.5	218.1	24.1	217.9
2007	4.8	143.9	13.9	305.5	32.0	224.9	27.9	217.3
2008	6.2	140.5	16.3	309.3	34.4	234.3	32.0	223.4
2009	8.2	166.7	17.6	331.9	35.7	245.9	32.2	242.8
2010	10.3	179.1	19.5	340.3	36.9	250.0	31.3	251.7
2011	12.7	178.4	21.6	346.4	38.3	249.9	33.8	252.5
2012	15.4	186.9	21.7	355.5	40.3	252.2	33.7	263.1
2013	19.0	204.1	18.2	361.7	41.1	248.7	34.9	265.7
2014	22.0	217.9	17.1	362.8	42.7	248.0	35.5	270.3
2015	24.7	232.2	15.7	361.8	44.3	246.2	31.5	275.5
2016	26.6	246.0	18.3	370.7	46.5	251.5	32.5	274.5
2017	29.9	251.0	17.8	370.2	47.8	249.1	34.0	268.5
2018	33.3	250.9	18.5	371.4	50.2	248.6	35.4	263.2
2019	35.8	256.9	19.3	380.2	53.2	251.9	34.8	264.3

Source: Own elaboration with BIS data, available at: https://bit.ly/2SxVcUH

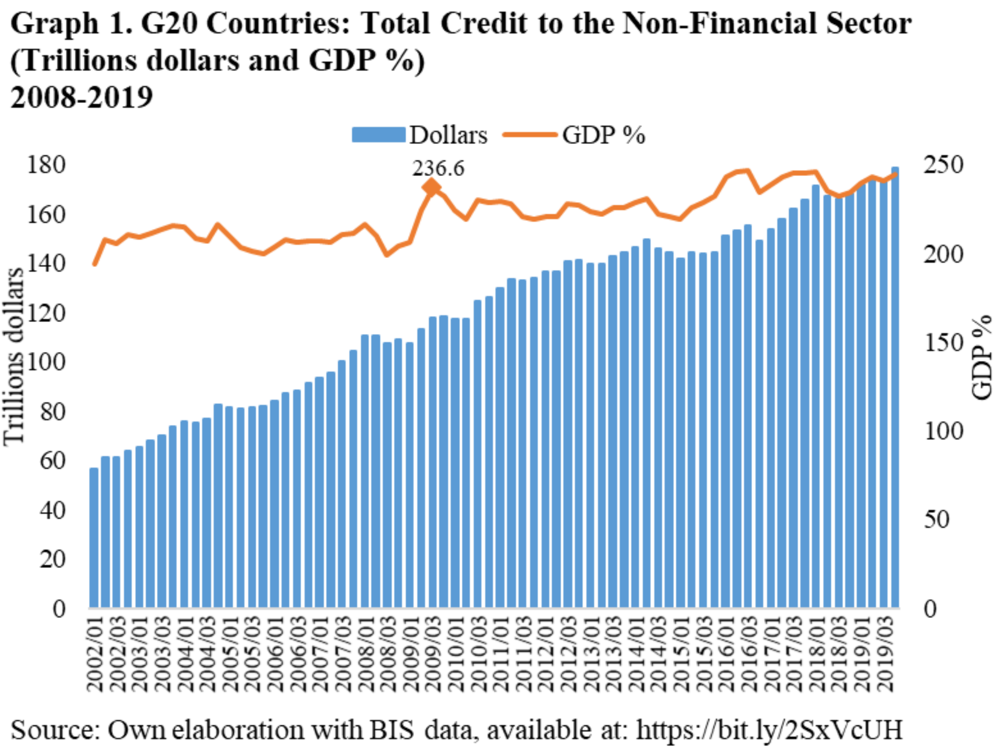
In the current context, there is a concern that arises when analyzing the growth rates of the product since, after the Great Recession and when facing COVID-19, China slowed down its growth rate and went from double-digit to one digit rates, even during the first quarter of 2020, and as a result of the health crisis, the country registered a value of -6.8%.

A clear example of the deterioration of payment possibilities is Japan when considering credit as the debt's mirror. One may notice that, when comparing data from 2008 and 2019, debt went from 309% to 380% with an amount of $16.3 billion to $19.3 billion. This amount presents a contraction of the product because, although there were years in which it was less than during 2019, the proportion regarding GDP was higher. Opposite to the situation of the United States where despite a significant increase in the amount, the proportion regarding the GDP was not so abrupt.

Moreover, credit to the global non-financial sector increased from $56.4 to $178.4 trillion, from 2002 to 2019, regarding the GDP proportion from 194% to 245% (Graph 1). Two

periods stand out clearly: firstly, credit fluctuated around 200%, however, after the Great Financial Crisis, there was an accelerated increase reaching a new level of 240%, which has remained until the end of the period. This is because of unconventional monetary policies that injected liquidity into financial markets and lowered interest rates, cheapening the cost of money and increasing the supply of credit, which final effect was a debt increase.

Graph 1. G20 Countries: Total Credit to the Non-Financial Sector (Trillions dollars and GDP %) 2008-2019

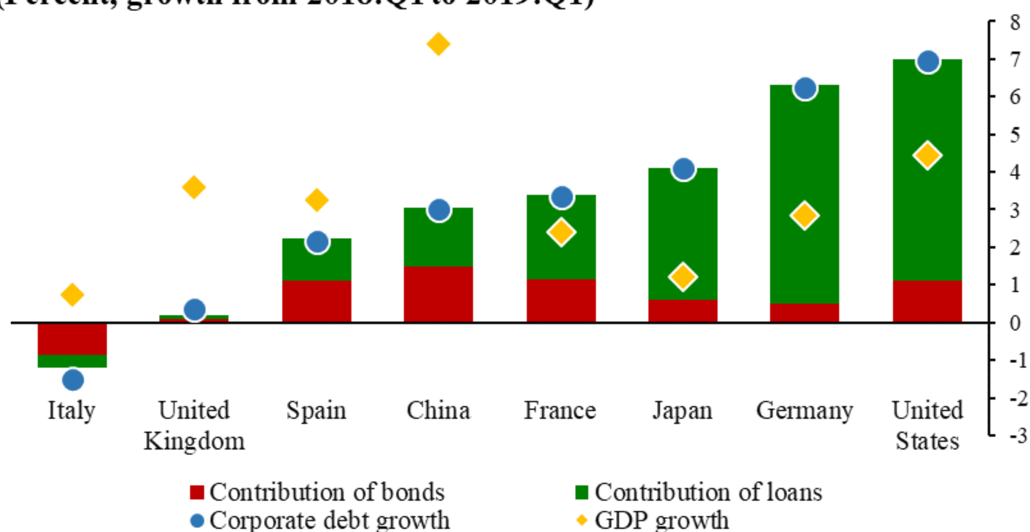


Source: Own elaboration with BIS data, available at: https://bit.ly/2SxVcUH

In the current scenario, due to the emergence of the pandemic, these policies have been adopted again to face the abrupt fall of financial indexes and leaving pending its effect on the increase of debt.

Graph 2 shows the growth and composition of corporate debt, as well as its comparison with GDP growth of eight of the largest economies in the world, from the first quarter of 2018 to the first of 2019. This group of economies also involves two subgroups: the highly indebted and moderately indebted. The first group includes the United States, Germany, Japan, and France, in which corporate debt growth exceeds their GDP growth. That is, while from 2018 to 2019 GDP growth for these four countries was less than 5%, corporate debt grew between 4% and 8%, of which loans are the most of the debt by up to 80%.

Graph 2. Corporate Debt Growth, Contributions from Bonds and Loans, and GDP Growth
(Percent, growth from 2018:Q1 to 2019:Q1)

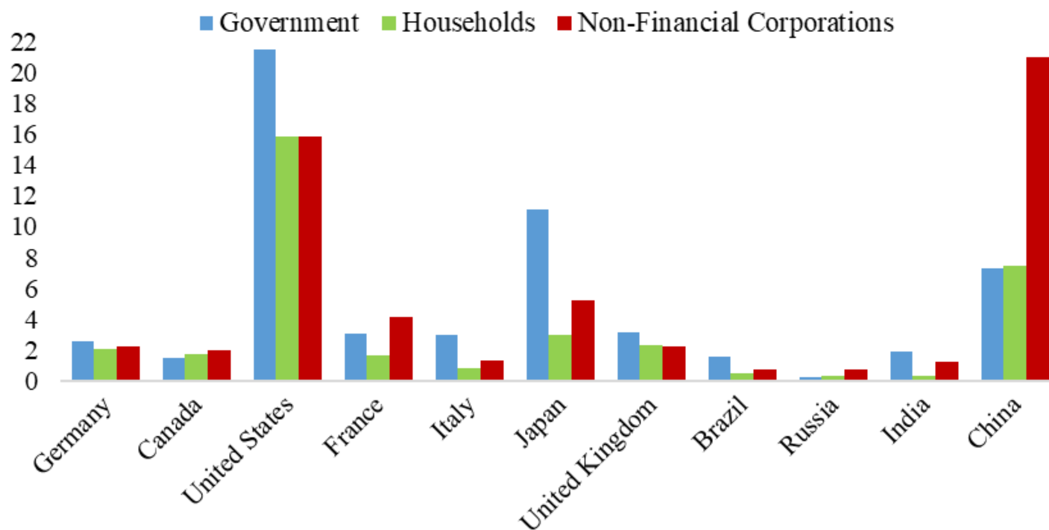


Source: FMI, Global Financial Stability Report, October 2019

The second subgroup involves China, Spain, the United Kingdom, and Italy, where the corporate debt growth is lower than that of the GDP. For example, China presented a 7.4% GDP growth, while its debt did so by 2.5%, where one may also observe that the contribution of bonds and loans to corporate debt is visibly equitable (50% for each item). Italy is another important case and, although its GDP growth was the lowest of the group with a value of 0.6%, its corporate debt presented a -1.5% growth.

Besides corporate debt (nonfinancial corporations or simply corporations), one should not forget households and government debt, since they make up the nonfinancial sector. Graph 3 shows the total amount of credit destined to the non-financial sector, which presents a value of $178 trillion for the last quarter of 2019. Concerning this data, it is worth noting that the G-7 and the BRICS concentrate 84% of the amount, that is to say, $150 billion. Within these select countries, the importance of the United States, Japan, and China stands out because they concentrate $108 billion in credits.

Graph 3: G7 Countries and BRIC: Structure of Credit to the Non-Financial Sector, Trillions dollars, 2019



Source: Own elaboration with BIS data, available at: https://bit.ly/2SxVcUH

The United States presents a similar credit distribution for households and businesses whose amounts are close to $16 trillion and more than $21 trillion of government's credit. Likewise, Japan predominates in government's credit with $11 trillion, and even if households and business credits were added, the sum would only be $8 trillion. Finally, China presents a diametrically opposite composition with a greater credit placement for companies with $21 trillion, followed by households with $8 trillion, and government with $7 trillion, however, it is important to be cautious when analyzing these amounts due to the nature of state's property which has a large number of Chinese companies.

Authors like Konstantinos predicted the weakening of global debt repayment "… despite ultra low rates and ample liquidity... furthermore, the BIS only analyses listed zombie companies, but in the OECD 90% of the companies are SMEs (Small and Medium Enterprises), and a large proportion of these smaller non-listed companies, are still loss-making. In the Eurozone, the ECB estimates that around 30% of SMEs are still in the red and the figures are smaller, but not massively dissimilar in the US, estimated at 20%, and the UK, close to 25%" (Konstantinos, 2019).

It is important to emphasize that few days after the pandemic was declared, the seeds of the next debt crisis were voiced, and with great concern. Months before the end of 2019, "… the ratio of global debt to gross domestic product hit an all-time high of over 322 per cent in the third quarter of 2019, with total debt reaching close to $253tn. The implication, if the virus

continues to spread, is that any fragilities in the financial system have the potential to trigger a new debt crisis.” (Plender, 2020).

Days later, at the IMF meeting, its president warned “…about the steepest recession since the 1930s, has already received requests for emergency support from more than 100 countries. While developed nations are throwing money at their slumping economies and struggling health systems, even many of the richest emerging markets lack the resources to act in the same manner” (Wheatly y Schiapani, 2020). The Economist mentions that “…the struggle against covid-19 as a war…as the economy falls into ruins, governments are writing millions of cheques to households and firms in order to help them survive lockdowns” (The Economist, 2020b).

4. Conclusions

The global stop of productive circuits in a multipolar world revealed, beyond the pandemic, the result of austerity policies that neglected the health systems and investment in infrastructure. As a consequence, contradictions emerged between and within countries. In the face of an uncertain future, after the economic strike started in China, and as proposed by Wolf (2020), beyond forecasting the immediate evolution of the economy the debt burden of countries and non-financial corporations stand out since it will not be solved either in the medium or the long term. In turn, public deficits will be increasingly higher in the face of the direct stimuli, provided by the governments, to cope with the development of the Great Depression, which was, additionally, announced as the deepest after that of 1929.

The fall of commodities’ prices and the capital flows movement between emerging countries plus inflation, will be a burden for governments that have been affected by the fracture of globalization. In the workplace, technology will revolutionize many of the face-to-face activities, and renewable energies will be present to establish a green economy. The life care economy will have to become the axis of the development of a new social contract and austerity policies will have to be put aside.

COVID-19 arrived at a bad time. On the one hand, there was an immediate deflation of the financial assets of the main corporations at the moment when the financial markets collapsed and, on the other, the payment of the sovereign debts was infeasible. The World Bank and the International Monetary Fund stated this fact at the 2020 spring meetings.

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