

Global Economic Governance

SISU 329

Prof. C. Randall Henning
School of International Service
American University

Syllabus
Spring 2021

Class time: Monday and Thursday, 9:45-11:00 a.m.

The global economic order faces challenges from several quarters. Debt accumulation creates profound financial vulnerabilities and crises are therefore likely to become more frequent than in the recent past. Second, while advocating open trade and investment, China is supporting initiatives and institutions that represent alternatives to Western-sponsored forms of multilateralism. Third, climate change presents severe risk for private and official institutions of global governance. These developments occur at a historical juncture where countries that had been responsible for creating international institutions the mid-twentieth century are questioning multilateralism. Such challenges threaten to fragment governance and, if not addressed, ultimately halt or reverse the process of economic globalization.

This course examines the politics and institutions of global economic governance. It first reviews the basic principles associated with financial crises and rescues and the institutions that constitute what has come to be called the “global financial safety net.” Regional financial institutions have proliferated, challenging the previously dominant International Monetary Fund and complicating the organization of financial rescues. Second, the course examines the challenge that China might pose as an important international creditor for the arrangements that govern financial cooperation. Third, the course examines threats to economic stability posed by climate change, a matter that financial institutions and global governance must now address seriously.

This course is designed to help students integrate their undergraduate coursework, study-abroad experience, language and regional expertise through topical readings and discussion of them in class, as well as through writing and presenting research papers.

- The learning objectives of the course are to enable students to:
- understand the basic principles and concepts associated with the global economy and the arrangements by which it is governed;
 - become familiar with international financial and economic institutions and some of the details of their operations;
 - evaluate normative recommendations for how regulators and institutions should respond to crises and other policy challenges;
 - articulate alternative arguments regarding the organization of the global economy;
 - and integrate theoretical insights and empirical research.

Students should bring a solid understanding of the fundamental concepts of microeconomics and macroeconomics to this course. Previous coursework in International Political Economy and/or International Economics is also very useful although not strictly necessary.

The instructor's office hours will be held each week after one of the class meetings and otherwise by mutual arrangement with students.

Email: henning@american.edu

Grading and Requirements

Students are expected to attend each class meeting, prepare the readings, participate in class discussions, comment on other students' presentations constructively, make a substantial presentation of their own in class, and submit a research paper. They will also take a two concept quizzes and the final examination. The weights attached to these requirements are:

Participation	15%
Concept quizzes (10% x 2)	20%
Presentation	15%
Research paper	25%
Final exam	25%

Students should submit a prospectus on their research paper during the sixth class meeting (the fourth week of the semester) that identifies the specific topic (which must be related to the course, naturally), develops the research questions in three or four good paragraphs, provides an initial list of references, and contains a preliminary outline of the final paper.

The presentation will be on the paper topic, drawing upon the student's research, at a date and time to be scheduled by the instructor. Students should treat the presentation as an opportunity for feedback on the arguments and themes that they intend to include in the paper, in order to improve the final version. The final paper will be due at the beginning of the Thursday class meeting during the twelfth week of the course.

Students can expect to be assigned to lead off the discussion of readings, podcasts and videos at various points throughout the semester.

To prepare for discussion of current international financial policy, students should follow the financial media on a regular basis. This includes, but is by no means limited to, following the instructor on Twitter, [@henning_randall](https://twitter.com/henning_randall), where links to relevant media reports will occasionally be posted.

Although there may be exceptions to accommodate special circumstances, students should plan to participate in online class meetings with their cameras on. In exceptional cases where cameras cannot be used, students should participate actively in class discussion.

Students are encouraged to consult the instructor's website for syllabi, weblinks and other resources: www.randallhenning.com.

By enrolling in this course, students agree to adhere to American University's Academic Integrity Code (AIC) in its entirety. The AIC, whose provisions are taken seriously in this course, can be found at:

<http://www.american.edu/american/registrar/AcademicReg/New/reg80.html>

At this point, I do not list books required for purchase. But students would benefit from referring frequently to an economics textbook, such as Dennis R. Appleyard, Alfred J. Field, Steven L. Cobb, *International Economics*, a recent though not necessarily the latest (most expensive) edition (New York: McGraw-Hill/Irwin).

Course Outline and Readings

ER = Electronic Reserve (on Canvas)

Week 1: Introduction: History of Financial Crises

The concept of global financial governance and its elements; overview of the engagement in the recent crises.

Please view prior to class: "[PBS Frontline: Inside the Meltdown](#)." (DVD 5620)

Week 2: Theory of Financial Rescues

Capsule history of modern financial crises; debate over reforms of the international financial architecture; Bagehot's rules for a lender of last resort.

Charles P. Kindleberger, *Manias, Panics, and Crashes: A History of Financial Crises*, 3rd edition, (New York: Wiley, 1996), chapters 10 and 11, pp. 146-189. (BB)

Read for the concept of the lender of last resort and Bagehot's rules.

Reinhart and Rogoff, *This Time Is Different*, Preface, Preamble and Chapters 1, 2 and 4. (ER)

Study questions:

1. What are the different types of crises?
2. What is a lender of last resort (LLR)? What is the origin of the concept?

3. What are Walter Bagehot's rules for a lender of last resort?
4. Definitions of solvency and insolvency.
5. What functions does an international LLR perform?

Global Financial Safety Net (weeks 3 to 7)

Week 3: The International Monetary Fund and the Legacy of the Asian Financial Crisis

Monday:

Ngaira Woods, *The Globalizers*, Introduction and Chapters 1 and 2 (pp. 1-64). (ER)

IMF, "[IMF Lending](#)."

IMF, "[IMF Conditionality](#)."

On the IMF website, also read the sections on the governing bodies of the Fund and the constituency system of the Executive Board.

Study questions:

- (1) What are the basic rationales and purposes of the IMF? What was its original purpose and how does that contrast to present purpose?
- (2) What are the formal governing bodies of the IMF? How do they relate to the staff of the Fund and the member states? Which member states dominate the IMF?
- (3) What are the key elements of a lending program of the IMF? Why does it attach conditions to lending? What are these conditions, typically, and how have they evolved in recent decades?

Thursday:

Video interviewing key players in the Asian financial crisis: "[The International Monetary Fund: Financial Cure or Catastrophe?](#)" (Films for the Humanities and Sciences #GUJ8807) DVD 1896.

Tamar Gutner, "The International Monetary Fund," in *International Organization in World Politics* (Sage and CQ Press, 2017), Chapter 7. (ER)

Takatoshi Ito. 2012. "Can Asia Overcome the IMF Stigma?" *American Economic Review: Papers & Proceedings* 102 (3): 198–202. (ER)

Study questions: (1) Compare the country cases in East Asia: how did the sources of the crisis differ and what did they have in common? (2) Through what economic channels did crises propagate from one country to another? (3) In which countries did rescue programs represent successes and failures for the IMF? (4) How should the Fund have organized them differently?

Recommended:

Takatoshi Ito. 2007. "Asian Currency Crisis and the International Monetary Fund, 10 Years Later: Overview." *Asian Economic Policy Review* 2 (1): 16–49. (ER)

Week 4: The IMF and the Seemingly Perpetual Problem of Argentina

Orfeo Fioretos and Eugénia C. Heldt, "[Legacies and Innovations in Global Economic Governance since Bretton Woods](#)," *Review of International Political Economy* (2019).

IMF program document on Argentina, latest version, link to be provided prior to the time of class.

Matis Vernego, "[Argentina and the IMF: What to Expect with the Likely Return of Kirchnerism](#)," October 24, 2019.

Hector Torres, "Restructuring Argentina's Debt Will Require IMF Support," *Financial Times*, February 5, 2020. (ER)

Study questions: Why does Argentina encounter debt crises so often? What are the main elements of its recent debt restructuring? What is the role of the IMF in the debt restructuring process and what should be its stance toward Argentina going forward?

Recommended:

De Gregorio, Eichengreen, Ito and Wyplosz, [IMF Reform: The Unfinished Agenda](#), Geneva Reports on the World Economy (Geneva: ICMBS, 2018).

Reports of the Independent Evaluation Office of the IMF on the global financial crisis of 2008-2009 and European sovereign debt crisis of 2010-2012.

Randall W. Stone, *Controlling Institutions: International Organizations and the Global Economy* (New York and Cambridge, UK: Cambridge University Press, 2011).

Mark S. Copelovitch, *The International Monetary Fund in the Global Economy: Banks, Bonds, and Bailouts* (Cambridge and New York: Cambridge University Press, 2010).

Week 5: Challengers to the IMF: Europe and East Asia

Ashoka Mody, *Euro Tragedy: A Drama in Nine Acts* (Oxford: Oxford University Press, 2018), Chapters 6 (Greece and Ireland 2010) and 7 (2011-2013), pp. 232-337. (ER)

Visit the [site of the European Stability Mechanism](#). See the ESM treaty in particular.

Recommended:

ESM, [Safeguarding the Euro in Times of Crisis: The Inside Story of the ESM](#).

Study questions: What caused the Greek and Irish crises and to what extent are those countries to blame? How did the European institutions and IMF respond? Should

Greece's debt have been restructured at the outset? Why was the IMF included in the rescue packages rather than Europe addressing the crisis on its own? How does the design of the ESM compare to that of the IMF?

Visit the [site of the ASEAN+3 Macroeconomic Research Office](#), and examine the tab on "AMRO and the CMIM" in particular.

Takatoshi Ito, "[Changing International Financial Architecture: Growing Asian Influence?](#)" *Asian Economic Policy Review* 13, no 2. (2018): 192–214.

Study questions: What was the source of the "stigma" of the IMF? What regional initiatives did Asian countries launch after the Asian financial crisis and how might these new institutions challenge the IMF? What else would East Asia have to do to create a genuine "Asian Monetary Fund"?

First Concept Quiz [about here](#).

Week 6: Regional Financial Arrangements: Designing Institutions to Work Together

C. Randall Henning, [Regional Arrangements and the International Monetary Fund: Sustaining Coherence of Global Financial Governance](#), Special Report (Ontario: CIGI, 2020).

View the video recorded presentation by Henning on RFAs and IMF in Covid-19. (ER)

William Kring and William Grimes, "Leaving the Next: The Rise of Regional Financial Arrangements and the Future of Global Governance," *Development and Change* 50 (1): 72-95. (ER)

Study questions: How does the IMF relate to other international financial institutions and regional financial facilities? Will Asia create an Asian Monetary Fund and Europe a European Monetary Fund? What problems and opportunities would that pose for the IMF?

Recommended

C. Randall Henning, "[The Future of the Chiang Mai Initiative: An Asian Monetary Fund?](#)," Policy Brief 09-5, Peterson Institute for International Economics, Washington, February 2009.

Daniel Gros and Thomas Mayer, [Toward a \(Euro\)pean Monetary Fund](#), CEPS Working Paper, February 2010.

Week 7: Debt Restructuring and "Bailing in" the Private Sector

Lee Buchheit, Guillaume Chabert, Chanda DeLong, and Jeromin Zettelmeyer, “[How to Restructure Sovereign Debt: Lessons from Four Decades](#),” Peterson Institute Working Paper 19-8 (May 2019).

Steven L. Schwarcz, “[Sovereign Debt Restructuring: A Bankruptcy Reorganization Approach](#),” *Cornell Law Review*, vol. 85 (2000): 956-1034. This is challenging, but read pp. 956-980 for the main concepts – from a legal perspective.

Study questions:

1. What are the rationales for bankruptcy arrangements in the domestic context?
2. How have scholars applied these rationales in the international context?
3. What interests oppose creating a Sovereign Debt Restructuring Mechanism?
4. What is the relationship between debt restructuring and crisis finance from the IMF?

Recommended:

Committee on International Economic Policy and Reform, [Revisiting Sovereign Bankruptcy](#) (Washington, D.C.: Brookings, October 2013).

Anne Krueger, “[New Approaches to Sovereign Debt Restructuring: An Update on Our Thinking](#),” speech to the conference, “Sovereign Debt Workouts,” at the Institute for International Economics, April 2, 2002.

IMF, “[The Fund’s Lending Framework and Sovereign Debt – Further Considerations](#),” April 9, 2015.

China, Belt and Road Initiative, and Debt (weeks 8 through 10)

Week 8: Belt and Road Initiative and Finance (Wellness Week)

Center for Global Development Seminar Panel, “[View of the Debt Landscape for Developing Countries](#),” October 17, 2019.

Seminar Panel, “[Decoding Debt: Getting Transparency Right](#),” October 19, 2019 (Washington, D.C.: World Bank).

Week 9: Belt and Road Initiative and Finance (continued)

Deborah Brautigam, *The Dragon’s Gift: The Real Story of China in Africa* (Oxford: Oxford University Press, 2009), Prologue and Chapters 5, 11 and 12. (ER)

Michael Baltensperger and Uri Dadush, “The Belt and Road Turns Five,” *Bruegel Policy Contribution* No. 1 January 2019 (Brussels: Bruegel).

John Hurley, Scott Morris, and Gailyn Portelance, “[Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective](#),” *CGD Policy Paper* 121 (March 2018).

Second Concept Quiz about here.

Week 10: Challenges to Debt Sustainability

Anna Gelpern, Sean Hagan, and Adnan Mazarei, "[Debt Standstills Can Help Vulnerable Governments Manage the Covid-19 Crisis](#)," Peterson Institute, April 7, 2020.

Congressional Research Service, "The Paris Club and International Debt Relief," July 18, 2017.

Sebastian Horn, Carmen Reinhart and Christoph Trebesch, "[China's Overseas Lending](#)," Kiel Working Paper No. 2132, Kiel Institute for the World Economy (June 2019; draft of April 16, 2020). (ER).

Week 11: Alternative Multilateralisms

Natalie Lichtenstein, *A Comparative Guide to the Asian Infrastructure Investment Bank* (Oxford: Oxford University Press, 2018), Preface, Chapters 1 (Beginnings) and 10 (Reflections). (ER)

C. Randall Henning, "Regime Complexity and the Institutions of Crisis and Development Finance," *Development and Change* 50 (1) (2019): 24-45 DOI: 10.1111/dech.12472.

Hongying Wang, "The New Development Bank and the Asian Infrastructure Investment Bank: China's Ambiguous Approach to Global Financial Governance," *Development and Change* 50 (1) (2019): 221-244.

Hong Zhao, "China-Japan Compete for Infrastructure Investment in Southeast Asia: Geopolitical Rivalry or Healthy Competition?," *Journal of Contemporary China* 28 (no. 118): 558-574. (ER)

Student presentations will probably be scheduled mainly during weeks 10 and 11.

Climate Change and Finance (weeks 12-14)

Week 12: Climate Risk and Sequestered Assets (papers due prior to the beginning of the class meeting on Thursday April 8th)

Bank of England, Climate Change: "[What Are the Risks to Financial Stability?](#)"

Petra van Meel and Sjoerd Blijlevens, "Impact of Climate Change on Financial Institutions," July 1, 2019.

Nives Dolsak and Aseem Prakash, "[U.S. Coal Bankruptcies Reveal the Future of Alberta Tar Sands](#)," *Forbes*, October 30, 2019.

Week 13: Financial Institutions Respond

Network for Greening the Financial System, [A Call For Action: Climate Change as a Source of Financial Risk](#) (April 2019).

Sarah Breeden, "[Avoiding the Storm: Climate Change and the Financial System](#)," April 15, 2019.

"[Can Central Banks Fight Climate Change?](#)," IMF Seminar October 16, 2019. View the video at this link.

Week 14: Climate versus Economy? The Carbon Tariff and other "Border Adjustment Measures"

Economist, "[Are Carbon Tariffs a Good Idea?](#)," February 17, 2017.

Adair Turner, "[The Case for Carbon Tariffs](#)," *Project Syndicate*.

Harro van Asselt, Sussane Doerge and Michael Mehling, "[How von der Leyen Could Make a Carbon Border Tax Work](#)," *Climate Home News*, July 22, 2019.

Recommended:

IMF, Fiscal Monitor: [How to Mitigate Climate Change](#), October 2019.

Carbon Tax Center, "[Border Adjustments](#)."

Adele Morris, "[Making Border Carbon Adjustment Work in Law and Practice](#),"

Brookings Institution, July 26, 2018

[Economists statement](#) published by the Climate Leadership Council, Jan. 17, 2019.

Study questions: What are regulatory arbitrage and carbon dumping? What is the case for a domestic carbon tax? The case for a carbon tariff? How would WTO rules have to change in order to accommodate carbon border adjustment measures?

Final Examination

Important Information for All Students

Standards of Academic Conduct: They are set forth in American University's Academic Integrity Code (AIC). By registering for this course, you acknowledge your awareness of the AIC, and you are obliged to become familiar with your rights and responsibilities as defined by the Code. Violations of the AIC will not be treated lightly,

and disciplinary actions will be taken should violations occur. Please contact me if you have any questions about the academic violations described in the Code in general or as they relate to particular requirements for this course, and I encourage you to familiarize yourself with the AIC at <http://www.american.edu/academics/integrity/code.cfm>. Finally, please let me know if you become aware of any violations of the AIC by other students.

In the Event of an Emergency: AU will implement a plan for meeting the needs of all members of the university community. Should the university be required to close for a period of time, we are committed to ensuring that all aspects of our educational programs will be delivered to you. These may include altering and extending the duration of the traditional term schedule to complete essential instruction in the traditional format and/or use of distance instructional methods. Specific strategies will vary from class to class, depending on the format of the course and the timing of the emergency. I will communicate class-specific information to you via AU e-mail and/or Blackboard, and you are responsible for checking your AU email on a daily basis and for keeping yourself informed of any declared emergencies. Please refer to the AU Student Portal, the AU Web site <http://www.american.edu/emergency/> and the AU information line at (202) 885-1100 for university-wide information.

AU provides numerous services to help students to be successful in their coursework: the Academic Support Center, the Counseling Center, Disability Support Services, the Writing Center and Writing Lab, and the Center for Diversity and Inclusion, most of which are located in the Mary Graydon Center (MGC). Academic Support Center (x3360, MGC 243) offers study skills workshops, individual instruction, tutor referrals, Supplemental Instruction, and services for students with learning disabilities and ADHD. Writing support is available in the ASC Writing Lab or in the Writing Center. If you qualify for accommodations because of a disability, please notify me in a timely manner with a letter from the Academic Support Center or Disability Support Services so that we can make arrangements to address your needs.

Counseling Center (x3500, MGC 214) offers counseling and consultations regarding personal concerns, self-help information, and connections to off-campus mental health resources.

Disability Support Services (x3315, MGC 206) offers technical and practical support and assistance with accommodations for students with physical, medical, or psychological disabilities. If you qualify for accommodations because of a disability, please notify me in a timely manner with a letter from the Academic Support Center or Disability Support Services so that we can make arrangements to address your needs.

Writing Center (x2991, Battelle-Tompkins 228) offers free, individual coaching sessions to all AU students. In your 45-minute session, a student writing consultant can help you address assignments, understand the conventions of academic writing, and learn how to revise and edit your own work. The Center offers appointments on the hour from 11 AM to 9 PM Monday through Thursday; 11 AM to 4 PM Friday, and 3 to 6 PM on Sundays.

Center for Diversity and Inclusion (x3651, MGC 2nd fl.) is dedicated to enhancing LGBTQ, Multicultural, First Generation, and Women's experiences on campus and to advance AU's commitment to respecting and valuing diversity by serving as a resource and liaison to students, staff, and faculty on issues of equity through education, outreach, and advocacy.