

Proceedings of the 2026 Asian Monetary Policy Forum¹

The 13th Asian Monetary Policy Forum (AMPF) was held on 21 and 22 May 2026 in Singapore. It brought together central bankers, academics and private sector analysts to share perspectives on several critical themes, including the multiple complex transitions reshaping the global economy, the shifting role of Europe in a more multipolar world, the features and fragilities of the international monetary system and the puzzling durability of US dollar dominance, the trajectory of US trade policy and the future of the world trading system, and the evolving contours of the global financial system—from stablecoins and non-bank intermediation to the build-up of leverage and fragility in core markets.

This paper presents the proceedings of the 13th AMPF². The programme comprised:

- Keynote Speech by Professor Michael Spence (Recipient of the 2001 Nobel Memorial Prize in Economic Sciences; Philip H. Knight Professor and Dean, Emeritus, Stanford Graduate School of Business) on *The Global Economy in Multiple Complex Transitions*;
- Opening Address by Dr Philip R. Lane (Chief Economist and Member of the Executive Board, European Central Bank) on *Europe and the World Economy*;
- Commissioned Paper by Professor Eswar Prasad (Nandlal P. Tolani Senior Professor of International Trade Policy, Cornell University) on *Features and Fragilities of the International Monetary System*, with discussion by Professor Barry Eichengreen (University of California, Berkeley) and Professor Danny Quah (Lee Kuan Yew School of Public Policy, National University of Singapore), chaired by Professor Sumit Agarwal (National University of Singapore and President, ABFER);
- Luncheon Address by Professor Douglas A. Irwin (John French Professor of Economics, Dartmouth College) on *Trump Trade Policy and the World Trade System*; and
- Policy Panel on *The Evolving Contours of the Global Financial System*, chaired by Professor Amit Seru (Stanford Graduate School of Business and Vice President, ABFER), with panellists Professor Viral Acharya (New York University Stern School of Business), Professor Wenxin Du (Harvard Business School) and Professor Ross Levine (Hoover Institution, Stanford University).

¹ The views expressed herein are the author's and should not be attributed to the Monetary Authority of Singapore. The assessment and views of the speakers and discussants should also not be attributed to the Monetary Authority of Singapore.

² The Forum proceedings are also available on the AMPF website <https://abfer.org/events/abfer-events/asian-monetary-policy-forum/441:ampf2026>

1 The Global Economy in Multiple Complex Transitions

Summary

In the joint dinner keynote, Professor Michael Spence argued that the global economy is experiencing several overlapping structural transitions that are not mean-reverting. Drawing on Adam Smith's insight that the division of labour is limited by the extent of the market, he reflected on the unexpected resilience of the global economy, on the world's entry into an extended period of higher real interest rates against a backdrop of high and rising debt, and on the two-speed nature of the artificial intelligence (AI) revolution. He contrasted the rapid progress in construction of frontier models with the much slower process of adopting and diffusing those AI tools across the economy. He viewed this diffusion challenge as the central macroeconomic question.

Adam Smith and the Extent of the Market

Professor Spence opened with Adam Smith, whose *Wealth of Nations* was published 250 years ago, four months before the American Declaration of Independence. He confessed that, like many readers, he had not fully grasped the book on first reading. Beyond the invisible hand, the deeper insight was what Smith called the division of labour and what economists now call specialisation: the driver of productivity growth and the incentive for innovation. The crucial corollary, easily overlooked, is that the division of labour is limited by the extent of the market, which, in turn, is determined by income levels, technology, transportation and the architecture of systems and regulation.

He suggested that economists bear some responsibility for failing to convey this insight to the broad public and to political leaders. Had the profession explained that globalisation was essentially the globalisation of specialisation—a continuation of the same process that played out within national economies as they grew more complex—it might have seemed less like a deviation and more like a natural progression. A related failing, he argued, is that economics is reasonably good at characterising equilibria but weak at modelling transitions from one equilibrium to another, precisely the kind of structural change now under way.

The Resilience of the Global Economy

Professor Spence said he had been struck by the resilience of the global economy through successive shocks. While growth is slowing and headwinds are real, the system has held up remarkably well. He attributed this partly to the rising competence and experience of economic managers across many countries, and partly to the fact that, unlike a generation ago, most of the world's population now lives in middle- and higher-income countries with greater resources to cushion shocks. He noted that the United States accounts for around a quarter of the global economy and a larger share of the global financial system, while the other three-quarters of the world continues to trade and invest under structures that still vaguely resemble multilateral arrangements. He also remarked on the depth of current uncertainty, observing that the International Monetary Fund (IMF) had declined to label its central projection a “baseline” scenario, calling it instead a “reference forecast”.

His principal concern was that the world has entered an extended period of higher real interest rates, driven by supply-side forces, in the context of high and rising sovereign and other debt. The combination, he warned, is building fragility into the system.

The Two Parts of the AI Revolution

Professor Spence stressed that the AI revolution has two distinct parts: the building of frontier models, and their deployment to solve business, social and scientific problems. The first part is dominated by the United States and China, and according to the Stanford AI Index the gap between them has now closed. The incentive structure to win in the AI race resembles an arms race in which the cost of coming second is so large that participants will err towards over-investment, raising concerns that AI investments have reached bubble territory. He noted the unusual fact that a large majority of non-proprietary basic research in the field is being funded by US technology giants, a concentration not seen since the days of Bell Labs.

The harder issue is diffusion. In science, adoption is already rapid—he cited AlphaFold, whose developers predicted the structures of some 200 million proteins and published them open-source; they are now used by millions of biologists across the world. In business and the broader economy, adoption will be slower because it requires changes in attitudes, business models and skill sets. The danger is that a slow rollout across large employment sectors—construction, health care, retail, hospitality, education—would deliver neither the hoped-for productivity surge nor an equitable distribution of gains, with productivity rising in high-income segments and stagnating elsewhere. He observed that China's 15th five-year plan names specific sectors for AI deployment, and that Singapore has established cabinet-level committees for the same purpose. On employment, he drew on the work of Professor David Autor and colleagues at MIT, whose task-level analysis of the expertise embedded in jobs suggests that AI will not simply replace routine, codifiable work; sometimes it displaces high-expertise tasks and sometimes low-expertise ones. Finally, he pointed to a broad rise in the capital intensity of economies, with value creation shifting towards intangible assets—software, AI and data. As an illustration, he noted that the share of tangible assets in the market capitalisation of a major stock index has fallen from around 80 per cent 25 to 30 years ago to roughly 20 per cent today, though he cautioned that this partly reflects current valuation.

Dialogue with Professor Steven Davis

Professor Davis asked how much responsibility the economics profession bears for its failure, over 250 years, to communicate Adam Smith's insight on specialisation and the division of labour to the electorate and to political leaders. Professor Spence acknowledged that the profession bears a measure of responsibility. Economists have traditionally been more adept at analysing static equilibria than at explaining complex transitions between them, notwithstanding that such transitions were central to Smith's account of growth through specialisation. He expressed the hope that the next generation of economists would address this deficiency, citing Professor Barry Eichengreen's integration of theory, transitions, and history as an exemplar.

Professor Davis endorsed Professor Spence's distinction between the rapid development of AI tools and the far slower pace of adoption, drawing on his own survey with a consortium of central banks. The first wave asked some 5,000 senior executives across four countries how AI is playing out in their own businesses. On aggregate, executives in the US expect an extra 75 basis points a year of labour productivity growth over the next three years and about half that in the other three countries—with very uneven effects across firms. Professor Davis then questioned the case for government-led diffusion policy, noting that such policy must be implemented by the government of the day and that the strength of the US rests on flexible markets and resilient institutions rather than on technocratic capacity; a less interventionist approach might therefore be preferable.

Professor Spence welcomed the survey evidence, noting only that senior executives differ considerably in their familiarity with the technology. Implementation, he argued, is challenging because raising the productivity of one part of the workflow merely shifts the constraint to another—a phenomenon he termed “sequential bottlenecks”.

He also pointed to AI's under-appreciated capacity to augment complex systems such as supply chains and smart grids, where the potential gains may be greater in more uncertain environments. On the United States, he anticipated that sufficient labour market disruption would ultimately compel governments to act. He favoured measured interventions, such as sector-specific taskforces charged with identifying regulatory barriers to adoption but emphasised that China's strategy would not be appropriate for the United States.

Professor Davis concurred, observing that many barriers to AI adoption in the US stem from long-standing problems, including the education system and the school-to-work transition. These problems predate AI, he noted, but their consequences could become considerably more severe in the years ahead.

2 Europe and the World Economy

Summary

In his opening address, Dr Philip Lane examined how the interaction between the euro area and the world economy has shifted over the 27 years of the single currency. He emphasised the depth of Europe's integration into global value chains, the rising weight of Asia—now collectively as important as the United States and more so in trade—and the importance of distinguishing intermediate from final trade. His remarks were divided into three parts: first, a review of how the euro area economy has evolved over recent decades and how its relationship with the global economy has changed; second, an illustration of how ECB modelling tools are used to analyse the impact of global shocks on the euro area; and third, how global structural shifts play a role in shaping the ECB's monetary policy stance.

Europe's Deepening Global Integration

Dr Lane observed that, even stripping out trade among EU member states, the euro area is a notably open economy—more open in its trade with the rest of the world, relative to GDP, than Japan, China or the United States. Europe's identity has never been that of a domestically driven economy. This trade integration is deeper still when viewed through the lens of supply chains. The participation of firms in the euro area in regional and global value chains has doubled over the last three decades. About a quarter of European exports reflect value added to products created elsewhere, and close to 20 per cent of the value added consumed and invested in Europe comes from the rest of the world. This, he argued, gives a more nuanced reading to headlines about a surge of intermediate imports from Asia, which can in fact be beneficial for European exporters and consumers through the value-chain channel.

The Rising Weight of Asia and the China Question

Whereas it was once natural, from a European perspective, to proxy the rest of the world by the United States, Dr Lane stressed that Asia collectively is now as important as the United States and more important in trade. The large increase in imports from China and from the rest of Asia accounts for most of the growth in European imports, much of it in intermediate rather than final goods. He noted that the elasticity of Chinese imports to Chinese GDP, long

close to one, has fallen to around 0.5, reflecting greater Chinese self-sufficiency and a more diverse domestic production base.

He drew particular attention to the changing character of Chinese competition, framing it as two distinct phases that broadly correspond to what the literature describes as the first and second China shocks. In the first phase, the euro area and other advanced economies lost export market share as China and emerging Asia became the hub for low-cost manufacturing and assembly. The first wave of Chinese imports into Europe consisted largely of consumer goods at the lower end of the technology ladder—but this phase also brought opportunities as China grew into a fast-expanding market and a critical node in Europe–Asia value chains. The second phase is more challenging: China now competes with European firms at the higher end, causing the euro area to lose market share in the medium- and high-technology segments that have traditionally been the backbone of its export strength. Decomposing those losses, Dr Lane distinguished a global demand effect—Europe being under-represented in the fast-growing technology trade that has driven world commerce in recent years—from a performance effect, with European firms losing ground even within their core segments.

A complexity-and-similarity analysis underscored the point. China's production base, now comparable in size to Europe and the United States combined, is increasingly turning out the complex goods in which Europe specialised, and on a similarity index of export profiles, China's basket resembles the euro area's more closely than that of any other major economy—visible in the automotive sector and well beyond. This contrasts with Brazil, whose commodity- and agriculture-heavy profile is complementary to China's, and with the United States, which remains sufficiently differentiated, including in technology, that it has no close Chinese counterpart. The consequence, Dr Lane noted, is that Europe faces intensifying competition on three fronts at once: in third markets, where it cedes share as China expands; within China, where European exports are on a declining path; and inside the European market itself, where Chinese firms are gaining ground in higher-technology products. Much of this can be read as a terms-of-trade shock for Europe in sectors where its firms once enjoyed market power and high mark-ups that are now being compressed as firms cut margins or scale back production. At the same time, European consumers and firms benefit from cheaper imports and intermediates.

Relative prices have reinforced the pattern: where Chinese producer prices have fallen, or risen by less than European prices, China has gained market share at Europe's expense. Part of this reflects a substantial real appreciation of the euro against the renminbi and a basket of other Asian currencies since the ECB began its tightening cycle in mid-2022, driven both by bilateral nominal exchange rate movements and, more importantly, by a large cumulative inflation differential—high cumulative inflation in Europe set against very low inflation in China. Standard misalignment metrics also suggest that the renminbi is currently undervalued against the euro.

Energy costs have compounded the shift: although energy prices rose everywhere, they rose by far more in Europe, leaving persistent scarring on energy-intensive industries such as manufacturing and chemicals and a marked decline in their production and exports. Dr Lane noted that China's lower export prices have fed through to a falling import price deflator and softer goods inflation in the euro area, even as cheaper intermediates support European production and demand. He cautioned against treating commodity prices as exogenous: a slowdown in China would put downward pressure on oil, metals and copper, so any assessment of Asia's contribution to European inflation dynamics must account for the endogeneity of global commodity prices.

Model-Based Analysis at the European Central Bank

Dr Lane explained why the ECB maintains a suite of global macroeconomic models rather than relying on a single framework. Any model is necessarily an abstraction: to be useful to policymakers it must be interpretable and tractable, yet no single model can simultaneously capture macroeconomic dynamics, financial channels, the granular structure of global value chains and the non-linear effects of very large policy changes. A set of complementary models, each with distinct strengths, allows results to be cross-checked and a more robust reading to be obtained.

These models serve two broad functions. First, they are integral to the quarterly Eurosystem projection round, in which the impact of the changing international environment is assessed primarily through the ECB-Global and ECB-BASE models. Second, beyond the projection and scenario exercises, the satellite models allow for deeper analytical work, exploring specific transmission channels in greater detail, such as quantifying granular sectoral effects or assessing the implications of structural shifts that require dedicated modelling frameworks. He illustrated the use of these models with several scenario analyses.

Dr Lane described ECB-Global as a multi-region, semi-structural model spanning eight world regions, incorporating trade and financial linkages, energy markets and regional heterogeneity, and allowing for region-specific monetary regimes such as China's managed exchange rate—a flexibility that fully structural models often lack. By recalibrating its trade parameters to different periods, ECB staff have traced how the structure of international spillovers has evolved. The outward spillovers from China—the effect of a Chinese growth shock on the rest of the world—have roughly doubled since the early 2000s.

At the same time, China has become markedly less exposed to foreign demand shocks, consistent with its falling export-to-GDP ratio, while the euro area has moved in the opposite direction: its rising openness has made it more sensitive to foreign shocks even as its own outward spillovers have slightly diminished. A complementary decomposition of industrial-production volatility confirmed the picture, with foreign shocks accounting for a far larger share of business-cycle fluctuations in the euro area than in China. Dr Lane stressed that China's spillovers operate mainly through trade and commodity demand rather than financial channels, given its relatively closed capital account, which is one reason a multi-channel model is well suited to the task.

To further demonstrate the model in action, he turned to scenario analysis of the energy shock that followed the outbreak of conflict in the Middle East in early 2026, when disruption to shipping through the Strait of Hormuz—a route carrying around 20 per cent of global oil supply—drove a sharp spike in oil and gas prices. ECB-Global was used to construct two scenarios differentiated by the severity and persistence of the shocks. In the adverse scenario, oil prices were assumed to peak at USD 119 a barrel and gas at EUR 87 per megawatt-hour; in the severe scenario, oil reached USD 145 a barrel and gas EUR 106 per megawatt-hour, with a much slower normalisation. The model's oil block and multi-region structure made it possible to trace the transmission from the initial supply disruption through commodity markets to output and inflation across the major economies, and the resulting drag on euro area foreign demand, before the global inputs were run through ECB-BASE to compute the impact on the euro area.

A second application concerned global imbalances. ECB staff compared a “more of the same” baseline, in which current trends persist—high US demand reinforced by an AI-related boost to total factor productivity, a real depreciation in China, and weak productivity growth

in Europe—against a counterfactual in which each major region acts in its own self-interest: the United States containing domestic demand, China lifting productivity and pursuing pro-consumption reforms, and Europe undertaking structural reform. In that counterfactual, global imbalances narrow substantially, and Dr Lane underlined the significance of the result: because each policy is broadly in the interest of the region adopting it, reducing imbalances need not depend on a grand, mutually negotiated global bargain.

Dr Lane highlighted several analytical lessons from this work. Models that embed cross-country production networks and input-output structures tend to amplify the inflationary effect of supply shocks while compressing that of demand shocks; switching off those linkages yields a much smaller inflation response, which matters because more aggregated models miss this amplification, including for core and services inflation.

Dr Lane stressed the importance of using the right models to analyse persistent structural changes such as productivity shifts, the diffusion of AI technologies, demographic ageing, climate transition policies, and rising public debt levels. Analysing such structural changes requires models that can trace transitions between steady states, rather than models that focus solely on local fluctuations around a fixed equilibrium. He introduced DREAM—a multi-country DSGE framework that allows for nonlinear transitions between steady states and is therefore well suited to analysing structural, long-lasting global shocks and their spillovers to the euro area.

DREAM incorporates cross-country linkages through trade in both final and intermediate goods, financial integration via crossholdings of long-term government bonds, and a detailed energy block distinguishing between clean and fossil energy sources. The model also features a comprehensive fiscal framework, enabling analysis of interactions between monetary, fiscal, and structural policies in a globally interconnected setting. This makes it especially useful for evaluating how permanent shocks in large economies, such as China, propagate globally and affect the euro area.

Using DREAM, he showed how the macroeconomic effects of global shocks depend critically on their persistence. Simulations of a 10 per cent increase in oil prices show that all such shocks generate inflationary pressures and reduce output through higher production costs. However, the duration of these effects varies significantly:

- Temporary shocks lead to short-lived inflation and output losses, which recover as energy prices normalise.
- More persistent shocks prolong both inflation and economic weakness.
- Permanent shocks result in lasting increases in the price level and a sustained decline in output, reflecting a permanent deterioration in real income and terms of trade.

The model was also used to analyse climate transition policies in China and their global spillovers, considering two contrasting scenarios:

- A positive clean energy productivity shock, which lowers energy costs, boosts Chinese output, and reduces inflation. For the euro area, this generates opposing effects: lower import prices raise real income and dampen inflation, but increased Chinese competitiveness leads to greater import penetration and a deterioration in euro area net exports and activity.

- A carbon tax increase, which raises production costs in China and reduces its output. This improves euro area competitiveness and reduces import pressures but also weakens external demand. The overall long-run effect for the euro area is slightly positive due to expenditure switching toward domestic producers, although inflation rises moderately.

Overall, the DREAM framework highlights that structural global shocks generate complex and often opposing transmission channels, with outcomes depending on the nature of the shock (cost-push versus productivity), its persistence, and its impact on relative prices and competitiveness. The key implication for policymakers is that careful shock identification, supported by global models, is an indispensable element of the analytical framework underlying monetary policy in an interconnected world.

3 Features and Fragilities of the International Monetary System

Summary

Professor Prasad noted that, despite the explicit erosion of the United States' domestic fiscal and institutional underpinnings, the US dollar maintained supremacy across almost all dimensions of the international monetary system (IMS). The dollar's dominance as a unit of account for trade invoicing, a medium of exchange for multi-currency clearing and a global store of value remained unchallenged for three reasons: (1) the lack of viable alternatives; (2) rising reserve demand and efforts to diversify away from the dollar had both run into that same absence of alternatives, pushing central banks towards gold—a strategy with problems of its own; and (3) new financial technologies such as stablecoins could entrench currency concentration rather than dilute it. He closed by outlining two alternatives for the world—continued dollar dominance or a fragmented currency system—and proposed a way out of this “currency doom loop” in the form of a global liquidity insurance mechanism.

The Expected Change That Has Not Happened

The logic of dollar decline is easy to state. US macroeconomic policy is disorderly, and the dollar's strength rests not only on the depth of US markets but on an institutional framework—the rule of law, central-bank independence, checks and balances, a free press—that is visibly fraying. The data offer some support: the dollar's share of global foreign exchange reserves has fallen from 71 per cent in 2000 to about 57 per cent at the end of 2025. Yet, Professor Prasad argued, the real puzzle is why the share remains so high, not why it has slipped. There is an absence of a strong rival: the euro's share has fallen since 2007, and the renminbi's has stalled at around 2 per cent. What has grown instead is the collective share of smaller currencies—the Canadian and Australian dollars, the Swedish krona, the Indian rupee—leaving the second tier more fragmented rather than producing a successor.

The same pattern shows up in the financing of US debt. Gross federal debt is approaching \$38.5 trillion, about 125 per cent of GDP, of which roughly \$26.6 trillion is privately held and some \$9.2 trillion sits with foreign investors. Demand has held up: foreigners absorbed nearly half of the \$1.3 trillion of privately held debt issued each year in 2008–10. Episodes that looked like flight were usually something else. The apparent foreign selling of 2015–16 reflected China running down reserves to defend the renminbi—its reserves fell from a peak near \$4 trillion in mid-2014, losing about a quarter within a single year—from which emerging markets drew two lessons: one can never hold too many reserves,

and reserves should be built whenever the chance arises. Foreign investors still held about 38 per cent of privately held federal debt at the end of 2025, down from a peak of 58 per cent in 2014 but, notably, up slightly since 2022. In short, the price data hint at a shift away from Treasuries; the quantity data do not.

Safe Assets, Reserve Demand and the Role of Gold

Reserve managers want three things, in order: safety, liquidity and yield. Such a ranking favours deep fixed-income markets, and here the United States still towers over the field: its government bond market is roughly two and a half times the size of China's or the euro area's and the United States accounts for about 45 per cent of the major issuers' total bond-market capitalisation. China's bond market now rivals the euro area's in size, so that the two together could in principle challenge the dollar; the question, Professor Prasad observed, is why they do not.

On how large reserves need to be, Professor Prasad noted a transition from simple rules of thumb—six months of import cover, then one year of maturing short-term debt—to the IMF's Assessing Reserve Adequacy (ARA) metric. Across 61 economies, the metric implies desired reserves of about \$9.3 trillion against actual holdings of roughly \$8.2 trillion; adjusting for capital controls, as in China's case, the world arguably already holds enough. Even so, accumulation continues—and increasingly into gold. The value of emerging market gold reserves jumped from \$603 billion in 2020 to \$1.6 trillion in 2025, but this was almost entirely a price effect rather than fresh buying. Gold, he cautioned, is weak on the attribute that matters most: its supply is inelastic. As a result, if many central banks tried to sell at once in a crisis, the price would collapse precisely when liquidity was needed most.

Professor Prasad highlighted that, under a net reserve asset provision framework (defined as global foreign exchange assets denominated in a currency minus the foreign exchange reserves held on that issuing central bank's balance sheet), traditional safe havens such as Japan, Switzerland, and China were net consumers of global liquidity, with deep negative net positions. The United States remained the singular, dominant net provider of safe assets (US\$6.99 trillion in net reserves supplied by late 2025), reinforcing the global system's dependence on the US financial system.

Payments, the Renminbi and the Measurement of Dominance

In payments, the dollar's position looks, if anything, even firmer. It accounts for about 59 per cent of cross-border payments sent through SWIFT and for 82 per cent of trade finance, and its share has risen over the past couple of years while the euro's has fallen; where currencies have lost ground, it is sterling and the yen, not the dollar. China's Cross-Border Interbank Payment System (CIPS) carries its own messaging and may settle perhaps a quarter to a third of China's trade in renminbi outside SWIFT, but this covers trade alone—not the larger world of financial transactions—and most of China's partners still route through SWIFT. The clearest sign of the dollar's resilience comes from the IMF's Special Drawing Rights (SDRs). When the renminbi entered the SDR basket in 2016 at a weight of 10.9 per cent, almost all of the weight then accorded to the renminbi was taken from the euro, sterling and yen. The dollar's weight barely changed, shifting from 41.9 to 41.7 per cent. In the 2022 SDR basket revision, the renminbi's weight rose to 12.3 per cent and, strikingly, the dollar's weight rose too, again at the expense of the other reserve currencies. Measured in relative terms, Professor Prasad concluded, the dollar faces no serious rival.

Technology, Stablecoins and the Risk of Greater Concentration

Professor Prasad explained that the ongoing digitalisation of financial infrastructure—including Central Bank Digital Currencies (CBDCs), stablecoins and decentralised financial instruments—is improving the efficiency of payments but is unlikely to trigger a rapid reordering of the IMS because of powerful network effects.

In principle, cryptocurrencies, stablecoins and tokenised assets could let countries build robust digital systems and level the playing field. In practice, they may deepen dollar concentration. More than 99 per cent of stablecoins are dollar-denominated, and the euro and yen versions have attracted little demand so far. The likely result is a dollar that becomes even more central as a payment currency, with weaker, less credible currencies exposed to displacement by dollar-backed stablecoins. These friction-free digital conduits could accelerate the transmission and amplification of the global financial cycle, contributing to highly volatile capital flows and exchange rates.

The Currency Doom Loop and the Global Liquidity Insurance Mechanism

Professor Prasad described a “currency doom loop” in which the world faces two unsavoury alternatives—continued dollar dominance versus a fragmented currency system. The first alternative is the status quo of dollar concentration. It lets the United States run persistent deficits while retaining the power to generate disequilibria elsewhere, and it leaves the Fed as the world’s lender of last resort at a moment when, politically, it may be constrained from playing that role.

The second alternative is a fragmented system of several currencies, none fully trusted. During a crisis, investors would switch between multiple currencies and rely on liquidity supplied by several central banks at once. This would be less stable than reliance on a single trusted backstop such as during the Global Financial Crisis in 2008, when the world could coordinate on one trusted currency, and one central bank, the Fed, to supply US dollar liquidity in essentially unlimited quantities.

Given the above scenarios, he proposed a Global Liquidity Insurance Mechanism (GLIM) that would augment the global financial safety net for emerging markets. The GLIM would be an insurance pool—mainly for emerging markets—that would substitute for costly self-insurance through reserves. Each member would pay a modest entry fee scaled to the size of its economy, and an annual premium of around 3 per cent of the value of the desired coverage. This cost is explicitly designed to match or sit below the current quasi-fiscal costs of sterilised intervention incurred during traditional reserve accumulation.

The pooled funds would be invested in the government bonds of the SDR-basket economies—the United States, euro area, United Kingdom, Japan and China—whose central banks would in return commit in advance to backstop the pool’s credit lines in a crisis. A drawing would be a one-year credit line at a non-punitive rate, repayable in the same hard currency; it would therefore address liquidity rather than solvency issues, and the repayment terms would limit moral hazard. Premiums would follow simple, public, rules-based criteria—a current account deficit above 2 per cent of GDP, for example, would raise the premium—and would be based on lagged values so that countries are not charged more when they are under stress. Because they rest only on publicly known data, the premiums would carry no stigma—the very problem that has left the IMF’s Flexible Credit Line and Precautionary Liquidity Line largely unused. The scheme could be run by a neutral steward such as the BIS, which conducts no surveillance of its own, with participation tied to membership of a body

such as the Financial Stability Board to secure broad take-up. It would be cheaper than self-insurance, would free the IMF to concentrate on surveillance and genuine solvency problems, and would help separate precautionary from mercantilist motives for holding reserves.

Discussion by Professor Barry Eichengreen

Professor Barry Eichengreen remarked that while Professor Prasad's paper was thoughtful and well-written, he would focus on areas of partial disagreement to stimulate discussion.

He highlighted a central claim of the paper: that the dominance of the US dollar has remained resilient despite US policy and institutional challenges. While acknowledging this has largely been the case so far, he cautioned that past performance does not guarantee future outcomes. He noted that previous once-dominant reserve currencies had eventually fallen from grace and argued that growing concerns about institutional erosion in the United States—both domestically and externally—could eventually undermine dollar dominance.

On the domestic front, he pointed to issues such as weakening rule of law and threats to central bank independence. Externally, he emphasised the importance of alliances, noting that countries tend to use and hold the currencies of trusted partners. Signs of strain, such as threats to NATO or reduced US troop deployments in Germany and Poland, could therefore affect reserve currency choices.

Looking at the data, he expressed more concern than the paper. The dollar's share of global reserves has declined from a little over 70 per cent at the turn of the 21st century to under 60 per cent today, the share of US Treasuries held abroad has fallen since the Global Financial Crisis, and there are signs of weakening safe-haven behaviour—the dollar did not strengthen after “Liberation Day” and rose only about 1.5 per cent after war broke out in the Gulf. He rejected the “there is no alternative” (TINA) argument: even without a clear alternative, confidence in the dollar could still erode.

Drawing on history, he compared today's risks to the 1930s—the 1931 sterling crisis and subsequent liquidation of reserves, the imposition of tariffs under the Smoot-Hawley Act and the retaliation they provoked—when reserve liquidation and a global liquidity shortage contributed to a collapse in world trade. Similar dynamics could re-emerge.

On alternatives, he argued that the paper underplays some possibilities. The euro has not lived up to its potential, held back by a shortage of safe euro-denominated assets and siloed markets, but a new sense of urgency (proposals to create common safe assets, capital markets union, a defence union) may begin to change this. Gold also has practical constraints: once repatriated and vaulted at home, it is illiquid and cannot be used as collateral or lent, but it can serve as a partial substitute. While China's CIPS is emerging as an alternative, it still relies on SWIFT for most of its messaging and its growth has stalled, making it an incomplete substitute.

Professor Eichengreen also emphasised the role of non-traditional reserve currencies and digital trading platforms, which have improved liquidity and access, enabling diversification.

On stablecoins, he was sceptical, citing concerns about regulation, stability, and legal recourse. Where the paper stresses the risks to emerging markets, he emphasised the risk to

the US Treasury market: a run on stablecoins backed by trillions of dollars in Treasuries would be a nightmare scenario.

On reserve pooling, he noted that holding reserves is costly and that better alternatives to self-insurance should exist in theory, but that schemes such as the Chiang Mai Initiative have never been activated in part, for lack of confidence among partners.

He concluded by noting that he preferred the terms “multipolar” and “diversified” to “fragmented,” seeing advantages in multiple liquidity providers rather than sole reliance on the Fed. Whether such a system proves stable, he added, would depend on the soundness of the major powers' underlying policies.

Discussion by Professor Danny Quah

Professor Danny Quah framed his remarks as an extension of the paper. He used as background an apparent inconsistency: the world order is changing significantly, yet the IMS appears relatively stable. He argued that discussions often focus too much on alternatives to the dollar rather than the broader system. In his framing, the IMS should be understood functionally—as a system that enables storing value, facilitating exchange, and providing liquidity—supported by an underlying institutional and infrastructural framework.

He noted that the current system emerged alongside the US-led global order after World War II. While that order is now under stress, the persistence of US dollar dominance—across payments, trade finance, and reserves—reflects strong network effects and entrenched usage. He argued, however, that this apparent stability might be misleading. The more significant changes are occurring not at the level of the currency itself, but in the broader geopolitical and institutional environment in which the system operates.

He identified three drivers of change in the world order: countries reassessing their participation in the system, the US stepping back from the order it itself built, and the US actively disrupting that order—citing Adam Posen's description of America moving from a global insurer to an extractor of profits.

More provocatively, he suggested that dollar dominance could be a “red herring”, arguing that the world should be largely indifferent to which currency—or hegemon—is dominant, since any core power could use the system to weaponise economic interdependence in similar ways. What matters more are the distributional consequences of the system. Any IMS delivers core benefits—efficiency, liquidity, and support for global growth—but also entails persistent costs at the periphery, including inequality, structural imbalances, and exposure to coercive economic measures. In this view, what has changed is not the existence of such trade-offs, but how they are distributed and experienced under evolving geopolitical conditions.

Professor Quah proposed the hypothesis that the key to change lies in the underlying infrastructure or “pipes” of the system rather than the currency itself. SWIFT, he noted, is merely a messaging system (“a glorified WhatsApp”); the real lever is the correspondent banking network that intermediates cross-border transactions. Much of that network runs through US financial institutions. This suggests that the critical bottlenecks—and sources of influence—reside in financial infrastructure rather than currency dominance per se. He pointed to developments that bypass these channels, including China's CIPS and the BIS Innovation Hub's Project mBridge and Project Nexus (the latter is already “live”), which allow bilateral exchange of local currencies without routing through the dollar. He stressed,

however, that such initiatives currently complement rather than displace the existing system, given strong network effects and switching costs.

Professor Quah argued that fragmentation should be reframed as multipolarity and diversification—“no bad things”—and that no one disputes these are already happening. His conclusion was that change is likely to occur through the evolution of financial infrastructure rather than a simple shift in currency dominance. This interpretation is consistent with the broader shift from a rules-based order towards one more influenced by power asymmetry and strategic interdependence.

Linking back to the commissioned paper, Professor Quah suggested that observed trends—such as supply chain reconfiguration, slower trade growth, and rising policy uncertainty—should be understood as manifestations of a deeper reconfiguration involving both global power relations and the financial architecture of the IMS. He therefore suggested that the apparent stability of dollar dominance masked more fundamental changes beneath the surface.

Response by Professor Eswar Prasad

In response, Professor Eswar Prasad emphasised that his paper is descriptive, explaining why the system remains dollar-centric, and reframed it as a “call to action”. He outlined an ideal world with multiple strong currencies and institutions—or even one without reserve currencies at all—but noted that this is not yet realistic. He argued that countries hold reserves because of capital-flow volatility and the lack of effective insurance mechanisms, leaving them to self-insure.

While payment systems are improving, he stressed that the institutional and regulatory frameworks needed to support alternatives are still lacking. He described stablecoins as a catalyst rather than a solution—useful for exposing inefficiencies (he cited the Eurozone's reliance on US-mediated Visa and Mastercard for retail payments) but not the answer in themselves. He concluded that moving to a multipolar system will be slow and difficult given structural and geopolitical constraints.

Q&A

The Q&A discussion focused on practical implications. Participants highlighted the need for diversification, especially for small open economies, while acknowledging constraints such as liquidity, trust and institutional quality.

There was also discussion of governance challenges and interoperability across emerging systems, with general agreement that change is occurring but remains uneven.

4 Trump Trade Policy and the World Trade System

Summary

In the luncheon address, Professor Douglas Irwin presented the trajectory of US trade policy as a play in three acts: the first Trump term, the second Trump term, and the future. He argued that the extraordinary rise in trade policy uncertainty is driven by a single individual; that the first term was constrained by advisers and by statute; that the second term's tariffs have run into the US legal system, from the striking down of tariffs imposed under emergency

powers to the prospective shift to broader trade legislation; and that the most lasting consequence is reputational damage to the United States.

Measuring Trade Policy Uncertainty

Professor Irwin began by noting that the trade policy uncertainty index was essentially flat from 1960 through the rules-based era of low and stable tariffs codified under the GATT and then the WTO. It rose during the first Trump term and has gone off the charts in the second. The President holds the view that trade is bad and that tariffs are therefore desirable—a view his first-term advisers were unable to change.

Act One—The First Term

The first term opened with withdrawal from the Trans-Pacific Partnership (TPP) on day three, the renegotiation of NAFTA into the USMCA, 25 per cent tariffs on some \$300 billion of imports from China, and national security tariffs on steel and aluminium. Yet much of this, Professor Irwin argued, marked less of a break than the drama suggested: withdrawal from the TPP had bipartisan support, protection of the steel industry has been common across administrations, safeguard actions are largely administrative, and the disabling of the WTO Appellate Body—through the refusal to nominate members—had begun under the Obama administration. What restrained the President was the very advisers he was not heeding: Gary Cohn famously removed from the President's desk a letter withdrawing from the US–Korea agreement, and Robert Lighthizer, a proceduralist and institutionalist, insisted on working through the law. The term ended with a sense of unfinished business: the administration had even considered seeking tariff authority from Congress through a US Fair and Reciprocal Tariff Act but did not ultimately pursue it.

Act Two—The Second Term

In the second term, however, there were no restraining advisers. “Liberation Day” brought reciprocal tariffs, set out on a placard, against essentially all partners. The figures on the placard were largely fictitious and applied even to countries with which the United States had free-trade agreements, including Singapore, Chile, Canada and Mexico. The tariffs triggered sharp bond and stock market reactions, an escalation of tariffs on China to 145 per cent followed by rapid de-escalation, and erratic country-specific moves such as an overnight 39 per cent rate on Switzerland. The President invoked the International Emergency Economic Powers Act of 1977 to secure maximum discretion, but the statute does not mention tariffs at all. Two small firms sued and the Supreme Court struck down the tariffs in February 2026. The administration then invoked Section 122 of the Trade Act of 1974, which permits tariffs of up to 15 per cent for 150 days to address a balance of payments deficit. It applied 10 per cent on a non-discriminatory, non-discretionary basis, but the Court of International Trade ruled that the United States had no qualifying deficit. The President is now expected to turn to Section 301, which is broader, fully discretionary and harder to challenge legally. The Section 301 cases, premised on structural excess capacity in 16 countries and forced labour in some 60 countries, are designed to replicate the Liberation Day tariffs. Professor Irwin warned that trade policy uncertainty would therefore rise again, potentially for the remainder of Trump's second term.

The Economic Consequences of Mr Trump

Borrowing from Keynes's title (*The Economic Consequences of the Peace*), Professor Irwin summarised the impact of Trump's trade policy in three areas: the effect on US

manufacturing, the direct costs of tariffs, and the reputational damage to the United States. Since the imposition of tariffs, purchasing manager surveys have been overwhelmingly negative, and major manufacturers have taken sizeable tariff hits. Moreover, prices began to pick up as temporary exemptions and delays expired. The trade deals struck are weak, legally non-binding, and internally contradictory, demanding inbound investment while seeking to reduce the trade deficit. JP Morgan and Paul Krugman assessed that the costs of the tariffs heavily outweigh any benefits. The reputational damage to the US is already evident. In Canada and across ASEAN, surveys show that the United States is running neck-and-neck with China as a preferred partner.

Act Three—The Future

Looking ahead, Professor Irwin doubted a full reversal under any future administration, noting that the Biden administration retained and in places increased the China tariffs following Trump's first term. Tariffs, he observed, go up quickly but come down slowly. This is because tariffs are used as leverage, supported by business interests and fiscal revenue considerations as well as by bipartisan economic nationalism. He expected the US–China relationship to move towards outcome-based, managed trade (based on political and security grounds) rather than rules-based trade. If that happens, exports of third countries might be affected. On the WTO, he was not optimistic about a revival of its negotiating function, though he welcomed continued US engagement and the absence of any move to withdraw. He noted that world trade continues to grow outside the United States, even as the extensive use of tariffs by the US prompts defensive actions from its trading partners.

Dialogue with Professor Steven Davis

Responding to Professor Davis, Professor Irwin agreed that the path of recent US trade policy has been highly contingent, recalling that both of President Trump's election victories were surprises and that, over more than two centuries, only the Civil War, the Great Depression and the Second World War produced comparable breaks in an otherwise continuous trade policy. Both speakers stressed that rebuilding the United States' credibility as a reliable partner would be a multi-term undertaking, turning not only on conduct abroad but on the re-imposition of internal rules—through the courts and through Congress reclaiming some of the authority it had delegated to the executive.

5 The Evolving Contours of the Global Financial System

Summary

Chaired by Professor Amit Seru, the policy panel examined three facets of a changing financial landscape: the implications of stablecoins and the GENIUS Act for the competition between banks and non-banks; the economics of cross-border payments and the limits of stablecoins as a solution; and the build-up of incentives for excessive risk-taking in the US financial system. The panellists were Professor Viral Acharya, Professor Wenxin Du and Professor Ross Levine.

The Coming Battle for Depositors (Professor Viral Acharya)

Professor Acharya, presenting joint work with Peter Koudijs and Bruce Tuckman, argued that the GENIUS Act could open a battle for depositors. The Act creates a regulatory framework and a limited federal bank charter for payment stablecoins—in effect the first

narrowly chartered banks—requiring 100 per cent backing by cash and short-term Treasuries and prohibiting the payment of interest. Issuers have nonetheless found a way around the prohibition, with the issuer earning yield on its reserves and a distributor paying “rewards” to holders. Crucially, stablecoin issuers are obtaining “skinny” Federal Reserve master accounts that allow them to settle directly on the Fed’s balance sheet. A “skinny” account differs from a normal Federal Reserve master account in that it bears no interest on balances and offers no overdraft protection or access to the discount window. Banks, which had not previously lobbied against stablecoins, are now responding on two fronts: lobbying against the rewards, even as the proposed CLARITY Act leans towards permitting them, and developing their own innovations by tokenising deposits, while money-market funds go digital. Drawing an analogy with a financial supermarket, Professor Acharya argued that depositors who value liquidity and cash management services will stay with banks, while pure store-of-value depositors are the ones likely to migrate to money-market funds or stablecoins. He also noted the possibility of full master accounts being granted to stablecoin issuers which could channel a large new source of demand into Treasury bills.

The Economics of Cross-Border Payments (Professor Wenxin Du)

Professor Du noted that cross-border payments are estimated at around \$200 trillion a year, while retail remittances to developing countries exceed \$700 billion annually. Yet the average cost of sending a \$200 remittance remains about 6.4 per cent, well above the G20/Sustainable Development Goals (SDGs) target of 3 per cent. She compared three payment architectures. The first, correspondent banking and SWIFT, is costly because payments pass through several intermediaries: each “hop” may add fees, foreign-exchange mark-ups, pre-funded nostro balances and duplicated AML/CFT checks, while SWIFT itself provides messaging rather than settlement. The second, non-bank money transfer operators such as Wise and Remitly, lowers costs without recourse to blockchain. These firms use pre-funded local accounts, instant local-currency payouts, digital KYC/AML and internal netting of offsetting flows, so only residual imbalances need wholesale FX settlement. The third, the stablecoin “sandwich”, converts fiat into a dollar stablecoin, transfers the token on-chain and then converts it back into local currency. This removes some bank-intermediary steps but adds others: exchange spreads and trading fees, blockchain gas fees and fiat on- and off-ramp charges. The cost comparison above does not support the claim that stablecoins are a cheaper solution to expensive cross-border payments. Large-bank wires can embed foreign-exchange costs of around 300 basis points, while fintech operators reduce all-in costs sharply, especially for larger transfers and major currencies. Stablecoin routes can track wholesale FX benchmarks closely for major currencies on average, but pricing is volatile and liquidity is thin; in some emerging market corridors, the apparent cost advantage reflects a premium paid by residents facing capital-control barriers to access dollar stablecoins, not superior technology. Professor Du concluded that stablecoins introduce new intermediation rather than eliminate it. They may be useful where users can hold or spend stablecoins without converting back into local currency, but they are not a magic solution to cross-border payments. Indeed, after all the payment innovation, the reality is that most people still need to convert stablecoins to fiat currency for purchases. Ironically, this brings the system back to cards: Visa and Mastercard issue stablecoin cards and capture value through FX conversion spreads.

Growing Incentives for Excessive Risk-Taking (Professor Ross Levine)

Professor Levine warned that incentives for excessive risk-taking in the United States are again building, and that the consequences could be more serious than in the run-up to the 2008 Global Financial Crisis. He defined excessive risk-taking as risk-taking above the level

that would prevail in a distortion-free world. The concern is not simply that financial firms may take on more risk, but that public policy is weakening the two main constraints on such behaviour: private market discipline and public regulation and supervision. Backstops weaken the incentives of creditors, counterparties, boards and depositors to monitor risk, while weaker supervision reduces the public-sector check on aggressive behaviour. In his view, the United States is moving in both directions at once.

He made ten observations. First, crisis backstops have expanded sharply: the broad rescues in 2008, the formalisation of backstops under Dodd-Frank, and the protection extended during the 2023 failures of First Republic, Silicon Valley Bank and Signature have all raised expectations that private losses will be socialised in stress. Second, reductions in the enhanced supplementary leverage ratio lower the non-risk-weighted capital floor for global systemically important banks, lowering Tier 1 capital by more than \$200 billion and leaving less private capital to absorb losses. Third, opening 401(k) plans to alternative assets lowers regulatory and litigation barriers to placing illiquid, hard-to-value private-market investments in defined-contribution retirement savings; if losses hit retirees, political pressure for support could expand the public backstop. Fourth, wider acceptance of credit-score models for government-sponsored mortgage lending could expand federally guaranteed mortgages by about \$1 trillion, increasing access to the housing backstop and encouraging risk to migrate onto the public balance sheet.

Fifth, life insurers can reinsure liabilities through Bermuda affiliates with lower capital requirements and weaker US supervisory reach, enabling large shifts of reserves into higher-yielding and less liquid assets; a failure of a private-capital-linked insurer could create the same “too important to fail” pressures seen with AIG during the Global Financial Crisis. Sixth, proposals to expand deposit insurance, including coverage of some business transaction accounts up to \$10 million, would further reduce depositor discipline and formalise the expectation that uninsured claimants may be protected. Seventh, the Fed's Standing Repo Facility lowers dealers' tail risk; by backstopping dealers, it can compress haircuts and allow hedge funds to lever Treasury basis trades more aggressively, with potential losses ultimately falling on the public sector. Eighth, the GENIUS Act could create a run-transmission channel if stablecoin issuers hold reserves as uninsured bank deposits: even without explicit deposit insurance for token holders, political pressure to protect them in a crisis could extend the safety net. Ninth, the Fed's restatement of supervisory principles raises the burden of justification for supervisory actions, curtails horizontal reviews, lengthens consumer-compliance examination cycles and is accompanied by plans for large staff reductions, weakening the supervisory constraint on risk-taking. Tenth, weaker bank-audit oversight erodes the foundation on which supervision rests: if auditors are less likely to challenge aggressive accounting, supervisors start from less reliable financial statements, which reduces their effectiveness.

In closing, Professor Levine stressed that each observation might be dismissed in isolation, but together they point to a broad weakening of both market discipline and public oversight, with few apparent forces pushing for reversal.