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## 'Transnational Governance and Financial Issues' Panel

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Rapporteur Report,  
First Annual  
Conference

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**First GR:EEN Annual Conference**  
**14 February 2012, Milan, Italy**

### Summary of Papers

#### **Eleni Tsingou: Transnational Veto Players and the Process of Financial Reform – What Opportunities and Constraints for the EU?**

*The author situates her contribution in the field of the analysis of institutional change by focusing on the role of “veto players” - and not only of “change agents” - in bringing about policy change in the field of global financial governance. Such actors should not only be interpreted as the bearers of “national” interests and powers as they may be now found at the transnational level as well, for instance in the case of the Basel process. Change, she argues, tends to be perceived in revolutionary terms, when it is in fact often much more gradual and incremental: we just tend to perceive it more acutely when financial issues are placed high on the agenda – such as in the most controversial debate around “Too Big To Fail” financial institutions. Using, among others, the theoretical tools of historical institutionalism, the author*

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This research acknowledges the support of the FP7 large-scale integrated research project **GR:EEN - Global Re-ordering: Evolution through European Networks** European Commission Project Number: 266809

*explores several hypotheses regarding why incremental change is the dominant dynamic of contemporary financial policy reform.*

### **Li Wei: Coping with Dollar Predominance: the Role of Euro**

In a relentless critique of US monetary instruments of hegemony, the author examines the possibility for the euro to posit a real challenge to the global dominance of the dollar, which he demonstrates yields a number of unfair advantages to the US in the global economy. Some promising results have followed the creation of the Euro, which quickly rose to a position of a secondary reserve currency, especially for developing countries wishing to limit their dependency to the dollar. However, in the context of the crisis of the European public debt, even this challenger position seems to be threatened – which would be problematic to the Eurozone itself, but also to third parties who, like China, suffer from the US dominant monetary position. The problem, the author argues, is that the global monetary system tends to be structurally unipolar – which leads him to examining several scenarios to limit the role of the dollar.

## **Questions and Answers**

Both papers were discussed in turn.

### **Li Wei: Coping with Dollar Predominance: the Role of Euro**

The author appeared quite optimistic regarding the future of the Eurozone and of the European economy, since in his view the financial crisis provides opportunities for reinforcing the Euro, just like the Cold War provided incentive for regional integration. He was strongly encouraged not to hesitate to use the concept of hegemony when addressing the monetary dominance of the dollar and its misuse, since such concept stirs up major geopolitical issues.

The author was asked to comment on the failure of the yen to alter the dollar dominance and the difficult position of the euro – what of the Chinese RMB, often accused – especially by the Americans – of being artificially undervalued? What are the advantages and constraints associated with the move towards internationalizing the RMB, and who are the actors currently supporting it? The financial sector supports the internationalization of the RMB and regulation reform, but they are met with scepticism from the part of other actors – especially political leaders.

When examining in depth the advantages and disadvantages of RMB's internationalization and the subsequent role of the Chinese banking system, the author underlined that there is no clear Chinese monetary strategy. A few options are currently being discussed regarding China's monetary future: the first one is a monetary union in East Asia; the second means following the Japanese model of internationalizing the yen (which failed). None of these models is very appealing. The prevailing approach today is one of caution vis-à-vis the opening of financial markets, because it would threaten Chinese domestic financial institutions. Yet international factors also intervene in

domestic decisions regarding the currency: the author evoked the role played by the issue of the US/China relation in a context where US bonds are massively owned by China – thereby conjuring up a dilemma for the Chinese government on whether it should continue to support the dollar.

### **Eleni Tsingou: Transnational Veto Players and the Process of Financial Reform – What Opportunities and Constraints for the EU?**

The author's oral presentation differs significantly from her paper and she added many backing empirical elements and nuances to her argument. In the aftermath of the crisis, many debates on the reform of global financial governance have raged, indeed followed by some changes. Yet all actors claim that the scope of change is debatable, also because of the influence of veto players. The latter include states which form coalitions to use their veto effectively in influencing policy orientations within IOs. The author discussed the case of "Too Big To Fail" financial institutions, also named Systemically Important Financial Institutions and defined by their size and content of activities. However, their increase in size may result from EU integration, as there is a need for financial institutions big enough to thrive at the EU level. Veto players may here be states wishing to preserve access to credit for small and medium businesses, at the expense of stricter regulation of capital.

Transnational veto players are particularly interesting to study since their constituencies are unclear. The importance of national interests at the transnational level is in itself debatable, since they may disappear at this level where actors form new coalitions. Many comments urged the authors to pursue with her definition of transnational veto players, as who they were – committees like Basel, or private organizations, was still unclear.

The author examined the continuity and incrementalism in bringing about policy change in financial global governance. She was asked to elaborate on the role performed by ideologies ("ideational inertia") in this policy change. Who sets such a far-reaching and stable agenda, and how may the relative consensus be explained? As incrementalism does not necessarily equate with conservatism, there is also a need for taking uncertainty into account – for instance in the case of macroprudential regulation: besides their own ideologies, actors also prefer limited changes when they feel they are navigating in unknown policy waters.

Lastly, the author was asked to elaborate on the role of transnational mobilizations of veto players in policy networks; the means, nature and scope of such influence; how do they form their coalitions; their modes of action.

### **Conclusions and Significant Considerations and Criticisms Raised**

Among the more general comments, the importance of unpacking the concept of national interest was noticed: in China, advocates and opponents may be found to the internationalization of RMB while both relying on this concept, in

global financial regulation, the transnational level is characterized by a certain disconnection with national interests.

The papers brought us to different landscapes of how power manifests itself: the concept of hegemony in monetary governance appears very useful, while power relations appear much more fuzzy and blurred in transnational coalitions.

Both papers were invited to add more clarity about what is meant by “the EU”. Authors were also invited to consider the importance of perceptions (including those constructed by EU institutions, presenting the EU as a standard-setter) in building a simplified view of “the EU”. The EU actor-ness is perceived in a realm characterized by the multiplicity of actors of various natures. This brought far-fledged methodological comment with regard to the nature of the EU as an actor: is it legitimate to consider it a global actor or do we need a more sector-based perspective?