

05/10/1998

Aye to global monetary reform

IT is heartening that Prime Minister Datuk Seri Dr Mahathir Mohamad's earlier call for the reformation of the international monetary system is fast gaining the consensus of world leaders.

Precious time has been wasted during the denial phase of the West when it refused to recognise that the East Asian financial turmoil is partly due to fundamental flaws in the international monetary system and not exclusively to flaws in domestic policies. That there was little prior indication of severe macroeconomic mismanagement is manifested in the fact that barely a few years ago, every analyst worth his salt in the West found a shining paradigm for end-of-century capitalism in East Asia. As many have realised now, it is not that the much-proclaimed Pacific Century has turned sour and the current crisis is, in fact, no longer an Asian crisis but a global crisis.

What is happening now is nothing short of cataclysmic. Having spread to Latin America, Russia, Pakistan and Eastern Europe, the world leaders cannot afford to watch the financial chaos from the sidelines.

As pointed out by US Treasury Secretary Robert Rubin, the responsibility for these crises does not lie in the emerging markets alone. As it is, even the United States is not isolated from the contagion effect of the crisis. According to the Institute of International Finance, a lobbying group for major international banks, the Asian crisis will raise the US trade deficit by US\$35 billion (RM133 billion) and decrease economic growth by 0.7 per cent this year. Export contraction, says JP Morgan & Co, will cause its economy to grow by one per cent in the second half of the year.

Dwindling corporate earnings is inevitable since one third of Standard and Poor's 500 stock index have significant exposure in Asia. The litany of woes does not end there - its banks exposure in Asia is a cause for concern; drops in exports to Asia will ravage at least a million American jobs next year if the economic crisis fails to stabilise and a third quarter of private savings in the US are invested in speculation activities.

Clearly, the urgency for US action in mounting reforms to the international monetary system is in the interest of its economy and that of other economies. Such reforms should include mechanisms to handle international capital flows, the provision of swift and effective ways to tackle any liquidity crisis, an efficient exchange regime and regulated currency trading. A restructure of the World Bank and International Monetary Fund is crucial to ensure their role in ensuring an equitable global capitalism. The IMF, provided it is transparent, has a valuable role to play in the global financial system. But its secretive workings, including the fact that the amount supplied to Mexico during the peso crisis far exceeded the amounts slowly made to East Asian countries, indicate its lack of accountability. That its coffers has not been replenished shows how it is very much subject to the whims and fancies of the donor countries.

The reforms needed should not be dictated by the interests of the mighty few. Co-ordination among governments can help identify and manage the weaknesses in the system before they give rise to contagions that turn into epidemic. Any knee-jerk reaction by G-7 countries will compel others to resort to deviate from conventional wisdom and the agreed line in

resolving the crisis.

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