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IMF boss eats humble pie, again

FOR the second time in four days, International Monetary Fund (IMF) managing-director Michel Camdessus ate humble pie for lunch. However, his admission of the IMF's errors of judgement in dealing with the Asian financial crisis had never been verbal; appearing only writing. Last Thursday, in an interview with a German weekly, Camdessus said the Fund had committed errors in predicting and preventing the financial crisis. He confessed that the IMF had not been properly informed about short-term capital movements and should have done more to monitor the financial sectors in the countries hit by the crisis. On Monday, in an article in the Washington Post, the IMF boss conceded that the international financial system needs a reform. More importantly, he now agrees that the IMF itself requires to be reformed.

Assuming that Camdessus is sincere about reforms and that this is partly because he has been made aware of the IMF's mistakes in handling the Asian crisis, the first thing that he needs to be seen doing is conveying this message during the IMF/World Bank meetings of finance ministers in Washington over the next two weeks. There are several avenues Camdessus and the IMF can take to initiate reforms. There is the proposal by British Prime Minister Tony Blair for a 12-month deadline on world financial reforms. Blair, who is chairman of the Group of Seven (G-7) industrialised countries, wants the G-7 to initiate the reforms and take a closer look at the Bretton Woods institutions. French Prime Minister Lionel Jospin, who also called for reforms, wants developing countries to be given a greater say in the running of the global monetary system. The IMF could also go back to a time when the Asian crisis was young and the Fund more self-assured and play back the suggestions made by Prime Minister Datuk Seri Dr Mahathir Mohamad.

Last September, Dr Mahathir called on the international community to curb speculative and manipulative activities in currencies. Forex trading, which is 20 times larger than trading in goods or services, should be halted as it is "unnecessary, unproductive and totally immoral". Describing currency trading as "secretive and shady", Dr Mahathir said it did not have tangible benefits such as job creation and should be made illegal. When making these calls, which made the Malaysian Prime Minister very unpopular among hedge fund managers and currency speculators, the ringgit had been devalued by a mere 20 per cent and governments in the region would probably have scoffed if anyone were to suggest that a few of them would be needing IMF aid soon.

The one being scoffed at was Dr Mahathir, and by the likes of Mr George Soros who said that the Malaysian Prime Minister knew little about economics. But no one is saying that anymore although the Malaysian Government announced currency control measures on September 1 to protect the economy from the new capitalists. More and more governments, economists, scholars and people in authority - including Camdessus - have begun to see the merits of Dr Mahathir's views on speculative currency trading and the activities of hedge funds. Unfortunately, they invariably wait until they are hit before they come to their senses.

The bail-out of Long-Term Capital Management, the American hedge fund, must seem like poetic justice for many in the crisis-hit East Asian economies. It has also enlightened many sceptics about the operations of such funds and the response of governments such as the US in rescuing

critical firms even if they are near liquidation. According to a news report in the London Financial Times, at least one other US hedge fund and several investment banks have been hit. Which means that more news on bailouts can be expected from the home of Camdessus' IMF which, on many occasions, had chided the East Asian governments for bailing out their companies. The IMF boss must not think that the Thais, Indonesians and South Koreans have forgotten what he and other IMF officials had said to them and of them in the last year or so when the Fund was giving the impression that it was incapable of doing any wrong and the countries hit by the crisis could do nothing right.

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