

29/05/2000

Case for regional monetary fund

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MULTILATERAL institutions, especially the International Monetary Fund and the World Bank, have failed the developing countries. In fact some advice of the IMF had made the poor even poorer. Even in Russia there are more poor people following the IMF intervention than there were during the socialist rule.

The advice of Harvard Professor Jeffrey Sachs is that when an economy is in crisis the first thing to remember is not to call the IMF. Unfortunately not many countries have the strength to do this nor are in a position to follow his advice.

Then again there do not appear to be any alternative available to developing countries other than the Bretton Woods institutions, which certainly do not have the interest of developing countries at heart.

According to Dr Heribert Dieter visiting fellow and Professor Richard Higgott at the University of Warwick, the IMF has proved to be a creditor cartel and not an institution sensitive to members' needs.

The IMF programmes insist that countries cannot provide any financial support to their ailing banks and financial companies but should allow them to go bankrupt. But when it comes to foreign commercial and financial institutions that loaned the money, the IMF does not insist that the same principle be followed. On the contrary, it would like the countries to repay the loans with interest to the lender.

That is one reason why many analysts and commentators have called the IMF "the chief debt collector for international banks".

Others, including Kavalajit Singh, the coordinator of the Public Interest Research Group in New Delhi, argue that bailouts by the IMF have further encouraged institutional speculators to continue to indulge in speculative activities contributing to the creation of an unstable international financial system, where huge funds are poured in and taken out at will.

Michel Chossudovsky, Professor of Economics at the University of Ottawa, says the IMF bailout programmes are a "social safety net" for institutional speculators.

According to him rather than restoring confidence, the Thai bailout has contributed to alluring international speculators by the large amounts of fresh cash available in the vaults of the Thai Central Bank.

He argues that since Aug 21, 1997 a large portion of the US\$17.2 billion (RM65.36 billion) rescue package has already been "ransacked and reappropriated" by international bankers and financial institutions in a renewed upsurge of currency speculation in October and November 1997.

Despite the poor record of the IMF and clear evidence that the Fund makes things worse for the countries and its people, there is not much the poor countries can do. Not many are able to stand on their own nor is the leadership prepared to face the intense political, social and economic pressure for daring to be different, as Malaysia did.

Then again, there is no alternative and there is no institution in East Asia especially one that is more in touch with their needs than the IMF. The proposal in August 1997 to set up an Asian Monetary Fund (AMF) was immediately shot down and criticised by both the IMF and the US Treasury. It was not even allowed to be discussed at any length.

But the situation in the region is crying out for a better and more sensitive organisation. Prime Minister Datuk Seri Dr Mahathir Mohamad

said in an interview that the "AMF is very essential for developing countries in the Asean region". Others, including the President of UNCTAD X, Dr Supachai Panitchpakdi who is Thailand's Deputy Prime Minister, are in favour of a regional monetary fund.

Similarly analysts and economists have called for greater efforts at regional and international levels to regulate global capital flows.

People in the region certainly have a far better understanding of their own region and its needs. There are also sufficiently qualified and trained people capable of drawing up, monitoring and implementing policies best suited to their peculiar needs. They understand the local conditions and what goes on in the villages better than those from Washington DC "more likely to have a first hand knowledge of its five-star hotels".

Even as there are clear signs of recovery in the region, it must nevertheless prepare itself for the next crisis. It cannot wait and it cannot depend on the IMF. Self help is essential and necessary. The region cannot and must not be subjected to "experiments" and unnecessary pain.

The East Asian region has sufficient resources at its disposal. In addition to qualified manpower, the Asean 10 together with Japan, China and South Korea have foreign reserves in excess of US\$800 billion. According to Dr Dieter and Higgott even if only 10 or 20 per cent of reserves are available for an Asian fund, participating countries would overcome liquidity crisis without US help.

The 10 East Asian countries agreed to a swap arrangement in Chiangmai, Thailand, under which countries should be able to borrow from each other through short term swaps of currencies.

According to the Thai Finance Minister Tarrin Nimmanahaeminda a network of bilateral swap and repurchase agreement facilities among Asean, Japan, China and South Korea will be set up.

Presently there is a US\$200 million swap arrangement set up in the 1970s among Singapore, Thailand, the Philippines, Indonesia and Malaysia. Others will now be included thereby expanding the arrangement.

The US and IMF which vehemently opposed the AMF proposal for fear of "threat and undermining" their power and influence are reported to have expressed "cautious support for the Chiangmai Initiative".

Dr Supachai, who will take over as WTO Director-General from New Zealand's Mike Moore, had argued that if there can be regional development banks, such as the Asian Development Bank and the Latin American Development Banks, which are not deemed to be undermining the World Bank, there is no reason why a Regional Monetary Fund cannot exist.

They (Regional Monetary Funds) will in fact supplement the work of the IMF at the regional level and could function like a sister organisation with the same stringent standards that are on par with the IMF rules.

Any regional initiative for self help should be welcome. The recent financial crisis has demonstrated how easily and quickly a crisis can spread. Any move in the region for self help will not only benefit the region but also contribute to global financial stability. The Swap arrangement or the Chiangmai Initiative may not be the AMF as envisaged in 1997 but it is a first step towards greater regional cooperation in financial matters and one that is badly needed.

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