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Framework for orderly liberalisation urged

Hardev Kaur in Bangkok

BANGKOK, Sun: There is a need to establish a framework and safeguards to help countries undertake an orderly approach to liberalisation that will prevent extreme volatility in the marketplace.

Outgoing managing director of the International Monetary Fund (IMF) Michel Camdessus admitted that there is a need "to avoid the extreme volatility that hit Asia so severely".

"Just as the WTO - and the Gatt - have provided a framework and guidelines for the liberalisation of trade, and just as the IMF's core mandate has included liberalisation of payments, the process of liberalising capital movements also needs a framework and guidelines," he stressed.

With the increasing realisation of the damage free flow of short-term capital can cause, there is now recognition on the part of international and multilateral organisations that something must be done. But as some observers point out, multilateral organisations and the international community are not moving fast enough. Even the proposed new financial infrastructure is still nowhere in sight.

Camdessus told the 10th United Nations Conference on Trade and Development (Unctad) summit that it is time to move forward (with the framework and safeguards) so that the risk of future crises can be diminished.

"We have the technology and the instruments for transferring savings from surplus countries to where the resources will be used most efficiently ... We should not try to turn back the clock. Instead we need to establish the framework and safeguards to protect the international financial system."

At a press conference later, Camdessus admitted that the IMF had made mistakes in "liberalising short-term capital which is the most damaging. We allowed for free flow of short-term capital."

Malaysia has called for regulations and controls on such damaging short-term capital flows following the Asian financial crisis but Prime Minister Datuk Seri Dr Mahathir Mohamad was criticised for understanding economics and international markets.

Camdessus told the gathering of some 190 countries and various UN agencies that there is a need to help countries undertake an orderly approach to liberalisation.

He added that work is under way in the IMF on proposals that would allow countries to identify the steps that they need to take individually to liberalise their capital accounts and to define their own timetable.

Camdessus, who leaves the helm of the IMF after 13 years tomorrow, said "controls are not precluded by the IMF, but should be used only on a temporary basis, and preferably accompanied by other more basic structural reforms".

He stressed that he has no hesitation in asserting the benefits of further orderly liberalisation of international capital movements.

At the press conference he said the liberalisation must be done in proper sequence and "liberalise that which is most beneficial to your country".

Camdessus also proposed the setting up of a "supreme decision-making body in the IMF" comprising about 30 heads of state and government that have executive directors on the boards of either the IMF or the World

Bank.

In his address entitled "Globalisation and Poverty Reduction: Multilateral Approach", he said the body "would replace the G7-G8 summit every two years" and it would be "thoroughly representative of the entire membership of 182 countries".

He said it is essential to ensure that the IMF and other multilateral institutions are seen to have the legitimate political support of their shareholders.

As it would include the Secretary General of the United Nations and the heads of the relevant multilateral organisations, Camdessus said, "it would offer a way of establishing a clear and stronger link between the multinational institutions and a representative grouping of world leaders with unquestionable legitimacy".

(The G-7 groups the seven major industrialised countries - the US, Japan, France, Germany, Italy, Canada and the UK. Russia is included in the discussions for political issues, making up the G-8.)

"The world is changing and there is need to be more imaginative if humanity is to become better aware of and to assume responsibility for the global aspects of its destiny. We must provide the world with institutions adapted to these challenges," Camdessus stressed.

On arrival at the Queen Sirikit National Convention Centre, Camdessus was greeted with a cream pie thrown in his face which delayed his address to the gathering.

Asked about it, he said: "I like pastry and I did enjoy the taste of it. The other aspect is that is it part of the professional risk of my job."

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