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Need to avoid the extreme volatility that ravaged Asia

Hardev Kaur in Bangkok

THERE is a need to establish the framework and safeguards and help countries to undertake an orderly approach to liberalisation that will help avoid extreme volatility in the marketplace.

The outgoing Managing Director of the International Monetary Fund Michel Camdessus admitted that there was 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 an admission and recognition on the part of the international and multilateral organisations that something must be done.

But as some observers point out the multilateral organisations and the international community is not moving fast enough. Even the proposed new financial infrastructure is still nowhere in sight.

In his address to the preliminary session of the 10th United Nations Conference on Trade and Development Camdessus said it was time to move forward (with the framework and safeguards) so that the risk of future crisis can be minimised.

"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."

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

Malaysia had called for regulations and controls on such 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 was a need to help countries undertake an orderly approach to liberalisation.

He added that work was under way in the IMF on proposals that would allow countries to identify the steps that individually they needed to take 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 reform."

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

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