

Group of 24: Reform the monetary system

Here are excerpts from the communiqué issued in Hongkong on Sept. 20 by the Ministers of the Intergovernmental Group of 24 on International Monetary Affairs. The group included representatives from Venezuela, Algeria, Sri Lanka, the People's Republic of China, Saudi Arabia, and South Africa, as well as from the IMF, World Bank, International Labor Organization, and other international agencies.

I. World economy and monetary system

1. Developments in recent years confirm the leading role assumed by the developing world in the growth of the global economy and its significant input to the expansion of world trade. This increasing contribution reflects the stabilization and reform efforts that many countries have pursued in order to maintain sustainable growth with price stability. Ministers consider that this trend of faster growth of the developing world, relative to the industrial countries, should be appropriately reflected in the decision-making processes of the Bretton Woods Institutions (BWIs).

2. Growth prospects in Asia are being affected by the adverse shock to the dynamic South-East Asian region resulting from the recent turmoil in financial markets and by the effects of this turmoil on Japan's recovery, given that this region provides large markets for Japan's exports and capital. While recognizing that domestic policy weakness contributed to this crisis, Ministers emphasize the need to acknowledge the role of speculative activities and other factors in the external environment that provided the backdrop against which the financial crisis spread, through contagion effects, to a number of countries both within and outside the region, including those with sound macroeconomic fundamentals. Ministers underline the need to explore the interplay of domestic and external factors in the onset and containment of crises. . . .

4. Recognizing the potentially adverse impact of large fluctuations among the major international currencies on developing countries, Ministers consider it imperative that the Fund fully exercise its powers to ensure effective surveillance over the macroeconomic policies of the countries involved in management of these currencies. They believe that, in the perspective of an emerging tripolar system, the issue of reform of the international monetary system should be brought forward on the agenda of the world community.

II. Capital account liberalization

5. While recognizing the benefits for the world economy of greater freedom of capital movements, Ministers emphasize that the capital account liberalization process could put additional stress on the economies that are already straining

to adjust to globalization. Ministers agree that, in particular circumstances, precautionary and price-based measures could help countries protect economic stability and sound macroeconomic management.

6. Ministers agree to support further work on the orderly liberalization of capital movements as a prelude to any amendment of the Fund's Articles. . . . They also emphasize the need for adequate technical assistance and financial assurances to help countries to move toward capital account convertibility. In addition, they stress that: a) the liberalization of the capital account should not be made a condition for the use of Fund resources; b) restrictions arising from measures taken by members for prudential and financial market development purposes should benefit from flexible approval policies; and c) the treatment of foreign direct investment and restrictions for security reasons should be outside Fund jurisdiction.

III. Governance

7. Ministers reiterate their commitment to the principles of good governance—which include transparency, accountability, and the rule of law. While noting the recent efforts of the Fund and the World Bank to clarify their potential roles within their respective mandates in the strengthening of governance and reduction of corruption at the national and international levels, they re-emphasize the need to avoid the application of conditionalities based upon subjective judgments in these areas and to ensure uniformity of treatment of members based on objective criteria. Ministers express full support for cooperative international efforts to combat transnational bribery, money laundering, and other forms of economic crime. . . .

Support grows for Asian Monetary Fund

by Mary Burdman

On Sept. 23, the Japanese delegation at the World Bank-International Monetary Fund meeting in Hongkong, proposed the creation of a new Asian Monetary Fund, with a capital base of \$100 billion—half to be supplied by Japan itself—to support Asian nations' balance of payments, currency reserves, and other important economic mechanisms.

In a radio interview with "EIR Talks" on Sept. 30, Lyndon LaRouche welcomed the proposed Asian Monetary Fund:

"At the end of 1995, I made a trip to Japan, during which I met with representatives of various groups of influentials, top people there, behind the scenes, and some in the scenes, and laid out what was going to happen, and indicated what the remedies should be; what I thought the common interests of the United States and Japan were in this matter, and indicated the kinds of measures which should be taken to defend

Japan's vulnerability on its Asian flank, that is, its relations to China, as trading partners; its relations to trading partners in Southeast Asia, in particular.

"Now, what has happened, as I know from reports received, is that many among those circles, whose representatives I met on that trip to Japan, now believe that I was correct, and their reservations about my warnings have now been, more or less, dissipated. And they act in this way, to take a step in a direction which may not work by itself, but indicates an inclination which may come to fruition, because if China and the United States and Japan *agree*, or come to an agreement on measures like this, and have the support of groups like the Southeast Asian group, and the G-24, and so forth, if that comes into being, then we have a juggernaut here, that these fellows in the British Commonwealth, and the banking system, who are going into bankruptcy anyway, will not be able to stop. That is what the significance is to this [Asian Monetary Fund proposal]. Do not look at it as something in and of itself; look at it as a sign of the times. Look at it as *the way the winds are blowing*."

Chen Yuan, deputy governor of the People's Bank of China, stated in Hongkong: "The crisis in the Southeast Asian economies this summer has been a serious warning for all the countries in Asia." Chen Yuan said that China would contribute its share to the regional fund, if it were properly structured, according to the Danish *Jyllands-Posten's* report from Hongkong on Sept. 24.

LaRouche also noted the reaction of U.S. Treasury Secretary Robert Rubin to the proposal, stating that Rubin "is very close to the Chinese, and in support of Japan's policy, on these same kinds of issues, while walking a rope between the present policy in the United States, and what he knows that we have to go for on the other side of the chasm."

Rubin, who attended the IMF-World Bank meeting, and then went on to Beijing to discuss the upcoming Sino-American summit with China's top leaders, refused to join the violent critics of the proposed AMF. Switzerland's *Neue Züricher Zeitung* reported on Sept. 25 that "the U.S. has now turned around and has shifted away from the other partners in the G-7. On his way to Beijing, U.S. Treasury Secretary Robert Rubin said, he will in the visible future visit several Asian countries, in order to discuss the idea of the AMF on the spot."

In Beijing on Sept. 26, after the Sino-U.S. Joint Economic Meeting, Rubin told Chinese Finance Minister Liu Zhongli that the United States welcomes China's increasing participation in the international financial world, and said that he has noted China's recent contribution in assisting Thailand during its financial crisis.

In his press conference in Hongkong on Sept. 20, Secretary Rubin was asked for his reaction to proposals for "a special new rescue fund for the ASEAN nations that would somehow outflank the other global facilities of the IMF." Rubin responded: "I think that is really part of a broader question. I think what is happening in South East Asia today has some similarities to what happened in Mexico back in early 1995. . . . The question that is always before us, as the question we

faced at the Halifax leaders' summit, the question always before us is how do we best deal with preventing problems from developing and then, if problems do develop, dealing with the problems that have developed. Clearly, what we need to do is to have the institutions and mechanisms that are as modern as the marketplace, and that is an ongoing challenge that all of us are going to be faced with in this new world. . . .

"In today's global economy and global capital markets, issues that develop in one country, can become issues that affect many other countries. If you take that total framework, and I think all of us need to work in the context of that framework, to try to continue to improve the institutions that we have. . . . I think that the constructive thing for all of us to do is to continue to work in the context of those principles to see what kinds of steps that we can take that will improve our system, both with respect to prevention and then when crises do develop, a cure if you will."

London: a 'dangerous' idea

But the potential for such a fund to undermine the grip of the IMF in Asia, which has so exacerbated the financial disasters of the past months, provoked violent reactions in the headquarters of British Commonwealth policymaking. The mouthpiece for the City of London, *The Economist*, growled on Sept. 27 that "if this repeated talk of Asian responses to Asian challenges ever gets expressed as policy, the results could be dangerous indeed. . . . Japan, for instance, has proposed an Asian bail-out facility, amounting perhaps to \$100 billion, to help Asian countries in financial distress. Such an idea is risky. It would weaken the authority of the IMF, the closest thing the world's monetary system has to an effective policeman, and place in competition with a body, whose judgment would be guided more by politics than by economics."

The Economist noted that Asia may soon have an ally in the Americans, because "where Asians talk of capital controls to protect themselves from wicked speculators, many American Democrats want environment and labor standards to protect the United States from unfair foreign competition. . . . The White House may abandon" multilateral structures and pursue regional deals of the type that the AMF implies, instead. "If Asian governments were to start devoting more effort to regional rather than global arrangements, support for multilateral free trade would be weakened twice over. Suddenly, the squabble in Hongkong seems not so funny."

German and French officials were also hostile. German Finance Minister Theo Waigel attacked the AMF proposal, and his French counterpart, Dominique Strauss-Kahn, called it "more of a step backwards, than a step forwards," because the assistance the fund would provide would alleviate the "necessity" to impose harsh IMF conditions on Asian economies. French European Union Economic Commissioner Yves-Thibault de Silguy was also most concerned that the AMF might undermine the IMF, and possibly enable Asian economies to escape the full "liberalization" of capital markets that the Europeans are demanding.