

Why should Asian countries care about the IMF reform?

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- What did history tell us?
- What did the crises tell us?
- Why should Asian countries care about the IMF reform?
- An Asian proposal

WHAT DID HISTORY TELL US?

- In 1945 the IMF was found to ensure exchange rate stability and facilitate the smooth adjustments of BOP of member countries.
- In the 1970s the Bretton Woods system collapsed and the international monetary system shifts to free floating.
- In the 1980s the IMF was busy dealing with the international debt crisis.

- In 1990s IMF followed the economic transformation of former Soviet Union countries, and started to show interests on poverty reduction.
- In the late 1990s the Asian financial crisis erupted and the IMF became the firefighter of the international financial system.
- After the Asian financial crisis, the IMF became more and more irrelevant.
- The American financial crisis suddenly came and saved the IMF. Now the Fund is on the stage again.

- The IMF always has an identity problem and is still under serious attack.
- But in a world of volatile exchange rate fluctuation, massive international capital flow, high-leveraged financial institutions, financial crisis will occur again and again.
- In a world of interdependence, individual countries will find it more and more difficult to maintain macro stability without coordination with each other.
- The IMF, if reformed timely and properly, may be helpful for individual countries to prevent financial crisis and improve the management of the international monetary system.

WHAT DID THE CRISES TELL US?

- During the 1997-1998 Asian financial crisis, the reputation of the IMF was severely tarnished.
- The IMF came too late, with limited resources and peddled poor quality economic advices.
- The IMF was seen as a tool to serve American interests, captured by the lobbying force of multinational companies, and offering advice which is too ideological and too prescriptive.
- How can we trust the IMF will always be there for us in a crisis?

- After the Asian financial crisis, Asian countries turned their back on the policy advice of the IMF.
- Asian countries accumulated massive foreign exchanger reserve as a self protecting mechanism, even when the costs of holding excessive reserves is very high.
- Asian countries also turned to regional monetary cooperation, such as the CMI and Asian Bond Market Initiative.

- The IMF remain muted at the eve of the American financial crisis and fail to provide specific policy recommendations concerning the subprime mortgage crisis.
- In 2007 the IMF was busy labeling China and Maldives' exchange rate as “fundamentally misalignment”.
- The IMF also failed to response to global imbalances, its attitude was skewed towards the interests of the U.S.
- While the financial tsunami hit almost every corner of the international financial markets, the IMF could not take the responsibility to deal with market turbulence and address the regulatory gaps in the international financial system.

- Unless the legitimacy problem of the IMF will be reserved, Asian countries are unlikely to give priority to the IMF reform.
- Yet the American financial crisis showed that the global financial markets are not always rational and can produce system risks.
- After the crisis, a global institution is desperately needed to mitigate the sharp excesses of markets and manage global risks.
- Will it be the IMF? Well, maybe. It depends.

**WHY SHOULD ASIAN COUNTRIES CARE
ABOUT THE IMF REFORM?**

- The self protecting mechanism in Asia has been proved very costly.
- If the USD devalues considerably, what should holders of large foreign exchange reserves do to prevent their reserves from sinking?
- Rather than creating a “financial nuclear weapon”, China has been taken hostage by its huge foreign exchange reserve.

- The efficacy of the CMI has not been tested.
- No formalized and rigorous surveillance.
- Lack of permanent institute and central body.
- Political impediments.
- Asian regional financial cooperation can not substitute the IMF as the regional lender of last resort.

AN ASIAN PROPOSAL

- A reformed Fund could win back the trust of Asian countries.
- With the support of the Asian countries, the IMF could restore its credibility.

- The U.S. and European countries have long controlled the IMF but their contributions have waned.
- Representation of the Asian countries should be increased substantially to adequately reflect their economic weights and the dynamics of the world economy.
- Sadly, the current discussion of the new quota formula fall short of a meaningful transfer of shares from the developed countries to the developing countries.
- The Western countries' influence on the IMF decisions is further magnified by the composition of the Executive Board of the IMF.
- Selection mechanism of the Managing Director of the Fund should be more open and transparent.

- The mandate of the IMF should be greatly reshaped to cope with a changing global economy.
- The IMF should focus more on issues that are sensible for the Asian countries.
- Rather than just blaming the domestic policy mistakes of the crisis-prone countries, the IMF should pay more attention to the system, the external shocks, for example, the fluctuation of commodity prices, the volatility among key currencies, the externality of the major countries' macroeconomic policies, financial contagion.
- The IMF should try to provide Impartial policy advices, and try to be an honest broker in policy coordination among member countries, or as a “marriage counselor” (Barry Eichengreen, 2006) .

- The IMF could help the Asian countries in developing its financing mechanism through increased cooperation with regional institutions(ADB) and arrangements(ASEAN+3).
- The IMF could support the Asian surveillance process through technical assistance and data-sharing.
- The IMF should listen and learn from the field and know the real needs of their clients.

- All these demands a massive reform, not a decimal changes.
- It also requires the wealthiest members positively to push for these reforms, not to view it as a zero-sum game.