



Asian Parliamentary Assembly
Secretariat

Annex 2

The First Round Table on Asian Monetary Fund

S/2007/02

28 June 2007

Subject: Socio-Economic

“Asian Monetary Fund”

Working Paper on Asian Monetary Fund

I- Introduction

1- Asian Parliamentary Assembly (APA) adopted, at its First Session (12-14 November 2006- Tehran), a resolution recommended by the Socio-Economic Standing Committee. By this resolution, as reflected in Paragraph 26 of Tehran Declaration, the APA requested the President to appoint an expert team to consult with the governments of Member Parliaments on the establishment, structure and mechanics of an “Asian Monetary Fund”, hereinafter called AMF, and to report the results of its consultations to the President at the next APA Plenary (Annex 1).

2- In fulfillment of this task, the President of the APA mandated the Secretariat to establish a working group to prepare a working paper on the subject and pursue as wide a consultation with governments of Member Parliaments as possible.

3- The present working paper is prepared by the working group to facilitate consultations with the governments of Member Parliaments. It will also be considered at the First Round Table Discussion on the “Asian Monetary Fund”, scheduled for 9-10 July 2007 in Tehran, in order to facilitate the discussion.

In a letter dated 30 May 2007 about the First Round Table Discussion on Asian Monetary Fund, addressed to the Presidents/Speakers of the Member Parliaments, the Secretary-General requested that a Governmental expert be designated to attend the Round Table, which intends to address only the “establishment” part of the mandate at this juncture (Annex 2). The Secretary-General also suggested two broad questions to be addressed in the two-day Round Table as a brain storming session. He also requested of the Presidents/Speakers of the Member parliaments to forward the views, however preliminary, of their respective Parliaments and Governments on the subject of Asian Monetary Fund to the Secretariat in advance of the Round Table Discussion scheduled for 9-10 July 2007. As of to date no such views from Member Parliaments has been received.

II- Background

4- The idea for creation of an AMF was first proposed by Japan in September 1997 at the initial stage of the Asian monetary crisis. It was almost immediately opposed to by major industrial countries and the IMF as well as by some regional countries. The idea does not seem to have been actively pursued by its initial

proponents. It was not elaborated on enough to lend itself to systematic analysis and evaluation. The initial proposal of Japan called for creation of an AMF independent of the IMF but at later stages it was declared that such organization would operate in harmony with the IMF. Later on the “Manila Framework” called for establishment of a monetary cooperation mechanism for Asia to complement, rather than to compete with, the IMF.

III- Framework

5- Support for the idea of establishment of an AMF may largely emanate from four possible assumptions about the “shortcomings” and “prejudicial nature” of the existing IMF policies, system and structure, particularly those related to dealing with balance of payment problems of the member states. There is certainly divergence of opinions on how to view the IMF, its functions, policies and structure in this day and age. However, the four main assumptions that are often raised may be summarized as follows:

5.1- Due to the absence of an effective decision-making body of the IMF in Asia, the IMF cannot respond to the needs of the countries of the region as expeditiously and efficiently as necessary, especially in times of crisis.

5.2- The decision making process of the IMF is under the influence of countries with largest voting power, and therefore, renders it less responsive to the needs and problems of the Asian countries.

5.3- The conditionalities currently practiced by the IMF to allow the use of its resources make it unnecessarily difficult for the majority of the borrowers to use its resources.

5.4- The IMF is unable to make use of the large financial reserves of the Asian countries to alleviate the payment problems of regional countries and such reserves could be tapped in larger volumes by a regional entity.

IV. Arguments and analysis

6.1- The assumption about the negative impact of the geographical distance between the IMF Headquarters and Asia could be based on two factors:

6.1. a- Challenge of accessibility. This has, in recent past, been diminished in importance mostly due to the rapid technological progress in the fields of communication and information technology, which allow for almost instantaneous transfer of data. All these have made immediate knowledge of news and events in any part of the world an easy task for not only the officials in charge, but also for the lay people all around the world. Officials and other practitioners can exchange views and data instantaneously and make decisions expeditiously.

6.1. b- Challenge of responsiveness. This argument is based on the assumption that the staff of an AMF would naturally have a better understanding of the needs and challenges facing Asia as compared to the understanding of the staff of the IMF. Arguably, such understanding is quite likely to go beyond economic issues and challenges and involve political considerations that have little, if any, relevance. The impact of this assumption is, by and large, explained in the next argument.

6.2- There have been grievances, especially by developing countries, about the present decision making structure of the IMF. The appointment of the Managing Director of the IMF by European countries and the large voting power of few members at the Executive Board of the IMF constitute some of the main criticisms. It has been argued that such structure makes the decisions of the IMF biased against countries with less representation at the Board, and renders the whole process less efficient in terms of providing early warnings before the payment problems deteriorate into a widespread crisis.

The present configuration of the countries' voting power at the IMF based on periodically reviewed quotas reflects the relative economic size of member countries and if the same problems and grievances are to be avoided in an AMF, then a new system for distribution of voting powers should be devised for the AMF in order to make representation at its Board fairer and more democratic. A tenable and multilaterally negotiated alternative to the quota system of the IMF that is more representative and democratic is yet to be developed. Few would now argue in favor of the simple solution of one country, one vote; and even fewer hold that it would add to the quality and effectiveness of the decisions.

The inefficiency of the early warning system is a global challenge and is not specific to the IMF. It is commonly held that the theoretical knowledge and the empirical body of existing economic forecasting techniques leave much to be desired everywhere across the board. This is true for Asia also, as seen in challenge of forecasting the contagious effect of what at first deemed to be a local financial problem in South East Asia in late 90's, but turned out to be a widespread regional crisis. A young AMF would also be faced with the challenge of developing a capacity to collect and analyze data in today's interconnected

markets. Optimally, an AMF would collect data from all its members in Asia and not necessarily it is best suited to collect data from all around the world.

6.3- Much of the arguments in favor of establishing a separate monetary entity in Asia hinge on issues relevant to economic policy approach of the IMF and the entailing conditionality attached to its lending practices. This is in fact an argument about easy access to liquidity versus structural adjustments by countries facing economic and payment problems. This issue is prone to become a political issue, particularly at a troubled time. Political considerations urge the crisis-ridden countries to opt for easy credit rather than introduction of any modification to their economic policies and any adjustments in their financial structure. The experience of the Asian monetary crisis of late 90's vividly proved that any system of fixed exchange rate could become an easy target for speculators and lead to internal imbalance and external crisis with an immediate run on the country's foreign reserves. Any infusion of easy liquidity to counter such situation would invariably worsen the problem and lead to a huge waste of financial resources without alleviating the core issues.

Like the IMF, a new AMF would also be faced with the daunting challenge of striking a balance between the two conflicting lending policies, i.e., easy credit versus insisting on policy adjustments. Depending on where and how this balance is struck, the financial and political standings of the AMF would be determined.

6.4- The ability of an AMF to tap into large reserves of some of the Asian countries to handle payment problems of its members faces the question of whether it could raise resources in addition to what is normally available through the IMF on a permanent basis and whether these resources should be disbursed in harmony with the IMF loans. The existing experiences show that in times of

crisis, the international financial system and institutions can and do ask for help from countries with strong payment positions. Assistance beyond such international schemes are usually extended in consideration of especial bilateral economic and political relations between the donor and the recipient countries like the cases of Japan and Thailand or the U.S. and Mexico.

V. Conclusion and Proposal

7- The foregoing arguments and analysis clearly illustrate the complex and multi-dimensional nature of any decision concerning establishment of a new monetary institution to exclusively serve the Asian countries. These, together with many secondary issues like the cost, training and the time needed to establish a credible institution able to add to what is now available to the member states through the existing international entities, while avoiding the “shortcomings” and “prejudicial nature” attributed to them, call for a much more gradual and meticulous approach to exploring the issue of establishing such a new entity.

The rapid and profound changes in international money and capital markets in the recent past, including most prominently, the growing de-regulations, have further interconnected markets in nearly all financial products and processes in this increasingly globalized world, would likely make the tasks of a new and regional institution like an AMF much more delicate and sophisticated.

8- Countries of the APA Member Parliaments surely wish to establish an institution capable of contributing successfully to closer economic cooperation and greater integration in Asia, so that the states in this continent are empowered to assume their proper status commensurate with their historical, cultural, political and economic significance. To this end, the APA may wish to consider

making the necessary preparation to establish an organization with the largest possible membership in Asia to explore ways and means of promoting economic cooperation among Asian countries in all fields. Such organization can potentially promote coordination and cooperation in fields such as trade, money, finance and capital, energy, industry, transportation, communication, science and technology.

Some analysts believe the aim of this organization with so broad a mandate must be to prepare the ground for eventual creation of specialized institutions and entities in all fields of cooperation in Asia, including a monetary institution to actively work with member states to enhance monetary coordination and stability in Asia and to help with the pace of sustained and overall developments of all its member countries.

9- An Organization for Promotion of Asian Economic Cooperation (OPAEC) could provide a forum for consultations among member states by highly qualified professionals from public and private sectors to look into the most promising areas of economic cooperation among Asian countries. OPAEC could explore practical arrangements needed to integrate member states' markets in money, capital, trade and energy as well as industrial joint ventures and transfer of technology. OPAEC could explore measures to bring greater integration to human and natural resources of states in Asia, which would become greater than their aggregated sum. The potential thus generated could ensure absolute success, at global competitive level, for any and all joint and multilateral ventures carried out by OPAEC members.

10- There is a significant body of information and experience within Asia about promoting economic cooperation at sub-regional levels. Many Associations,

Organizations, Councils, and Forums in different parts of Asia do for a corner of Asia what OPAEC proposes to do for the whole continent. Therefore, OPAEC may regard its mission as a complimentary medium of integration, at a strategic and broad level, for the functions of many economic groups already established by various APA members in different parts of Asia. OPAEC shall take stock of the body of information and experience available with a view to developing ways and means of strengthening each economic group in Asia, as an independent part of a larger and complimentary network that serves the development interests of all peoples of the old continent.