

ADB South Asia Forum on the Impact of Global Economic and Financial Crisis

9-10 March 2009, Manila

Keynote Address by Michel Camdessus : "Asia in the New Global Financial Architecture"

A Summary

Introduction

The current global crisis is the most severe seen in our lifetime and has not bottomed out. Instead of being caught up in the rhetoric of despair, it is better to ask ourselves how we can contribute towards recovery and recognize that we have to not only react quickly but also to do it in a coordinated way. Those who are quick to respond will benefit more while coordination will gain positive effects.

The cost of the crisis has been tremendous in human and financial terms. It should not have happened if the lessons of the 1997 Asian crisis had led to the adoption and vigorous implementation of reform of the international financial architecture. We must now intensify work on designing and putting in place a new global financial architecture with the instruments to making the recovery a lasting one. The sheer severity of the present situation should open the eyes of world leaders to establish right away a new financial architecture.

Building Blocks of a New International Financial Architecture

The new international financial architecture can be a simple scheme comprising two basic building blocks:

- A brand new IMF; and
- A new governance group.

A Brand New IMF:

This constitutes a new mandate which allows the IMF to undertake surveillance of all financial developments and to initiate, coordinate and follow up on new regulations have in order to prevent abuses and maintain financial stability. The amendments of the Articles of Agreement should seek to establish an institution that is founded on the principles of universality, legitimacy, fairness of representation, subsidiarity, efficiency and accountability.

A New Governance Group:

The magnitude of the responsibilities entrusted to the new IMF justifies a corresponding review of its governance structure to ensure all countries are represented in all levels of governance. This means the G8 should relinquish its present self-attributed responsibilities to a Global Financial and Monetary Governance Group as the highest level decision making body. It could start with 25 members (Ministers of Finance and Governors) that would improve the voice and representation of the fast growing emerging countries but there should be an understanding that this number should be reduced when situation permits. Credibility of the Fund depends on realigning the powers of the institution as soon as possible , no later than 2010.

On the division of work between the Financial Stability Forum and the IMF , this should be clearly defined and coordinated.

Similar changes in the governance and operations of the World Bank, the Asian Development Bank and other multilateral agencies should also be adopted in the spirit of subsidiarity.

Important Role of the ADB

The ADB can play an important counter-cyclical role to mitigate the impact of the crisis on Asia by providing budgetary support to governments, emergency liquidity, trade financing and funding of infrastructure. ADB has made tremendous contribution to the development of Asia and increasing its capital would represent good investment of scarce financial resources.

Role of Asian Countries

But Asian countries must play their part in ensuring that the new financial architecture meets the challenges of a globalized world. To do this, the essential conditions to be fulfilled are:

1. Developing and emerging countries from Asia must take ownership of this new architecture and play their full role at all levels of governance, which includes:
 - Uncompromising surveillance;
 - Excellence in conduct of mutual policies and regional cooperation;
 - Active contribution to global coordination; and
 - Generous solidarity.
2. Active and forceful use of its voting powers in the World Bank and IMF and the proposed Global Governance Group.
3. Pursuit of regional cooperation in various forms.
4. Active participation in the Financial Stability Forum and the BIS.
5. Continued improvements in national regulatory and supervision systems.
6. Play active role in correcting global macroeconomic and structural imbalances.
7. Contribute generously to rebalance the financing of the global system, in particular the poorest countries.

With that, Asia has all the needed reasons and experience to contribute towards building a new financial architecture. This is truly the Hour of Asia.