Editorial

International Financial Architecture: Need for Reform

The ongoing Euro Zone crisis and the meltdown of 2008 have not only caught the monetary and financial regulators of the countries involved in the crisis unawares, but, even the regulators and facilitators of the International Financial Architecture too had no idea of the crises in making, till these crises engulfed these giants of the Europe and the USA. The countries that used to park their forex resources with these crisis-ridden countries too had no apprehension of the crisis that was brewing in. The earlier crises, including the debt crisis of 1983, the Mexican Peso Crisis of 1994-1995, the 1997 crisis in South-East Asia, the Russian crisis of 1998, Brazilian crisis of 1999, and the second Argentinian crisis of 2002, all were in the lesser developed countries of Asia and Latin America. But, the meltdown of 2008 and the ongoing Euro Zone crisis have erupted in the countries claiming utmost development of their monetary and financial systems. Moreover, both these crises are beyond the capacity of the International Financial Architecture including the custodians of international liquidity like the International Monetary Fund (IMF) to handle.

In the cases of the Early Intensive Adjustment Lending (EIAL) nations as well as in case of India and other countries which have faced liquidity crises in 90s, the IMF and the World Bank could offer bailout packages to all these countries in the times of crisis, though at the cost of implementing the Structural Adjustment Programmes (SAPs) which have led to the foreign ownership of their manufacturing and infrastructure sectors. The SAPs had thereby enabled the large trans-national corporations (TNCs) of the industrialized countries, which were then struggling with near stagnation, to take over the large sectors of trade commerce and industry, including the infrastructure and social services in the crisis ridden Asian, African and Latin American countries. But, now the vulnerability of the entre International Financial Architecture has been completely exposed in the wake of 2008-meltdown and Euro Zone Crisis. The IMF, World Bank, G7, G8, Financial Stability Forum, OECD, ASEAN, G20, EU, G77, BRICS are of no avail to take care of these twin crises of the US and Europe. The Dollar, Euro, Pound and Swiss Franc being used as international currencies have lost their benchmark value, except that they continue to be used as the means of exchange in the international trade and commerce. The Yuan, a new entrant as an international currency cannot replace any of the above, because of china being a non-market economy and also on account of non-convertibility of its currency. The Special Drawing Rights (SDR's) have become altogether too redundant to emerge as an international reserve currency, in spite of repeated Chinese assertions for replacing dollar by SDRs as international reserve currency.

The concept of international reserve currency being put forth by the china and few other countries is very sweet-sounding theoretically but, would be difficult to monitor in practice with diverse fiscal and monitory polices of the sovereign States occupying the global polity. It might face the same fate as that of the Euro. In light of this, there is an urgent need to reform and revamp the International Financial Architecture, in such a way that the ongoing Euro Zone crisis along with any future crises including the fiscal and monetary misadventures of sovereign nations can be taken care of.

(Prof. Bhagwati Prakash Sharma)