

**A South Centre report argues that the G20 agenda misses some of the key issues for reform of the international monetary system**

**This is based on the South Centre report on “Why the IMF and the International Monetary System Need More than Cosmetic Reform**

The hopes of a rapid global economy recovery have recently been dashed by renewed turmoil in the world economy. The sovereign debt problems in several European countries, the gyrations in currency exchange rates, volatility in capital flows, and the war of words among major economies over “trade sanctions” and “competitive devaluations” are some of the many troubling signs of a new crisis that may be worse than the 2008-9 crisis triggered by the US sub-prime mortgage problem.

The South Centre report on “Why the IMF and the International Monetary System Need More than Cosmetic Reform” authored by the Centre's Special Economic Advisor, Yılmaz Akyüz argues that these recent problems reflect the lack of international mechanisms to prevent financial crises that have global repercussions and that threaten to spill over to the trading and economic systems.

The report points out that:

- There are no effective rules and regulations to bring inherently unstable international financial market and capital flows under control.
- There is no multilateral discipline over misguided monetary, financial and exchange rate policies in systemically important countries despite their strong adverse international spillovers.
- National and international policy makers are preoccupied primarily with resolving crises by supporting those who are responsible for these crises, rather than introducing institutional arrangements to reduce the likelihood of their recurrence. Through such interventions, they are creating more problems than they are solving, and indeed sowing the seeds for future difficulties.

The South Centre report is being issued on the eve of the G20 Summit in Seoul in early November. The G20 has established itself as the forum to deal with the

financial crisis.

According to the report, however, the G20 and the IMF agenda does not include some of the most important issues that need to be addressed to deal adequately with the financial crisis or prevent future crises.

The missing issues include enforceable exchange rate and adjustment obligations, orderly sovereign debt workout mechanisms and the reform of the international reserves system.

Developing countries are especially vulnerable to the effects of the global financial problems, and they also have limited capacity to respond to shocks. They thus have a special interest in the reform of the international financial and monetary system, including the IMF.

The reforms should lead to the establishment of an orderly and equitable international monetary and financial system. However, if this does not materialise, developing countries should find ways and means of protecting themselves and looking after their interests through regional mechanisms.

These include arrangements regarding regional currencies and exchange rate mechanisms, intra-regional provision of international liquidity, policy surveillance and regulation of financial markets and capital flows.

Global solutions are better than such regional arrangements and developing countries should strive to realise them. But if major economic powers do not cooperate in building the new global system, it is definitely better to have the regional arrangements than to have a “non-system” in which the developing countries continue to be the victims of global financial crises. The following two articles are summaries of the paper.

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