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Ideas towards a new international financial architecture?

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Title of paper: A new international financial architecture: The regional *versus* the global view?

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Abstract

This paper is geared to show the limitations of the existing financial architecture and the emergence of what appears to be a new financial architecture with regional financial frameworks. It starts by making a brief history of the existing international financial system and its role in international financial regulations in order to show lack of proper global organisations by arguing the changes in the governance issues of existing international financial institutions given the massive shift in world economic power and follows with the problem of a country based reserve currency, proposing a new reserve currency that will have more stability than current highly indebted country based reserve currencies, and thus serve better as a store of value. It explores direct exchange rates versus indirect exchange rates and weighs its costs and benefits and revises the existing experiences, to finally suggest ways forward in the strengthening of international financial regulations through regional mechanisms. The proposal concerns complicating the existing international institutional set up by including the new strong regional elements that are already evolving while redesigning global instruments such as the SDR while downscaling the role of the IMF.

Keywords

international financial architecture; global view; regional view

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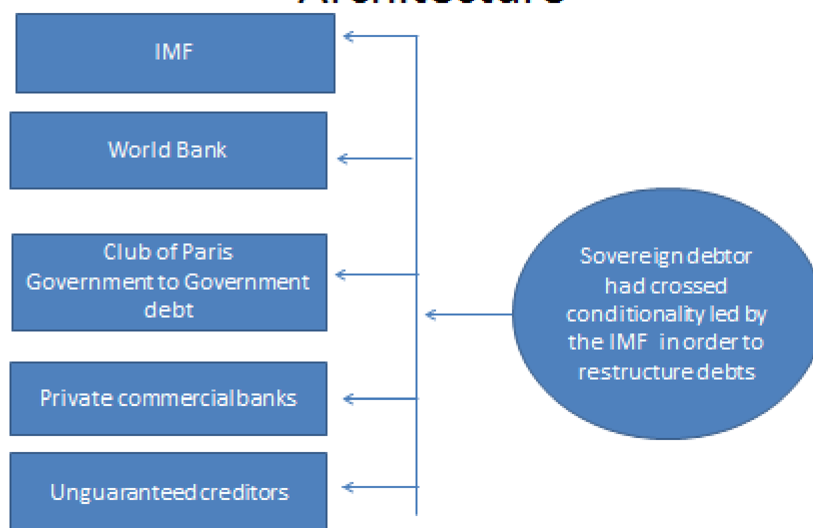
Some history

The 1944 design of the IMF was drawn on the grounds of a need for international financial stability so that a 1930's crisis –deflation with depression– would not repeat itself. That was the point of H.D. White's design of an economic stabilization fund in 1936 in the first place and of the discussion amongst all contributors to the Bretton Woods Conference later on in 1944. Keynes's contribution on the one hand was to imagine an international clearinghouse that would help to compensate deficit countries through increased expenditure of surplus countries. The monetary unit would be supranational –Bancor– and in one of the proposals for its confection, he suggested a basket of 30 commodities. (Keynes. 1943) On the other hand, the White Plan defined the role of the IMF as a watchdog for all countries and a whistleblower particularly for major economies going under in order to prevent a crisis like that produced by the fall of the New York Stock Exchange in 1929-30 and later in 1931 by the very significant Austrian Creditanstalt bankruptcy and the consequent systemic effects. (Shubert, 1991) The point of White's monetary fund was to produce financial support fast for those countries having a run on their currencies, major unfinanced external deficits, and/or a banking crisis.(Bordo and Eichengreen, 1993) In the 1930's it was clear that major problems were produced partially by existing floating exchange rates of major economies applying beggar thy neighbour policies after the end of the gold standard.[i] Setting a gold-dollar standard in the mid 1930's stabilized the world economy and allowed for the recovery of world trade. This was formalized in 1944

in Bretton Woods and came to an end in 1971. That was the end of Bretton Woods I. This was not the end, however of the financial architecture built since the 1950's.

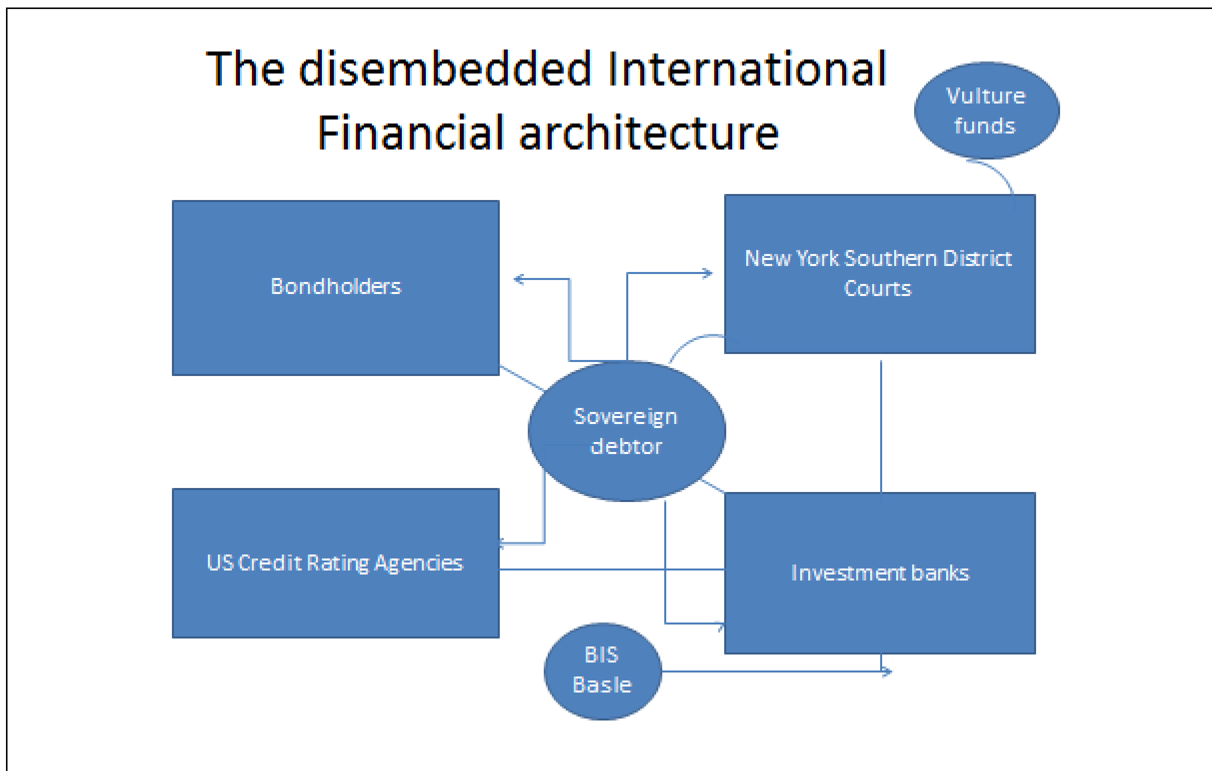


Source: Ugarteche, "The Embedded-Disembedded Financial Markets: A Variation", paper presented at the **International Conference: The Enduring Legacy of Karl Polanyi,** November 6-8, 2014, Concordia University, Montreal.

The IMF was designed as a State led multilateral institution composed of international agreements, to keep exchange rates stable but lost its track in the early 1970's after the collapse of the Bretton Woods fixed exchange system and ended up looking at emerging nations instead of looking at all of its constituency. It passed on the responsibility for major country emergency financing to central banks and treasuries of G7 countries. The G3, *library group*, formed in 1975 by French president Giscard d'Estaing with the United States and Britain, decided it

would look after itself and later invited a further four countries –Italy, Canada, Japan, Germany– in order to constitute the G7 (Bayne, 1997). They would coordinate macroeconomic policies and look after themselves, making sure banks financed the rest of the world while the IMF supervised. It was the moment of the North-South divide, of the changed role of the IMF from major international economic problem overseer into a North South agency.(Ugarteche, 2009) It was the begining of the privatisation of the international financial architecture and global governance. Not only was Bretton Woods dead, but the spirit in which it had been thought out, was annihilated. The 1970's were a new age for the Fund.(Boughton, 2004) This was the start of Bretton Woods II.

The outcome was a new disembedded financial architecture where it is credit rating agencies and investors, not lenders, who operate. Governments have little intervention in international financial matters except when it comes to rescuing critical banks. In the financial architecture, the relationship is between investors and debtors, or sovereign debtors, these are qualified by the credit rating agencies, and intermediated by investments banks who are somehow certified as safe by the Bank of International Settlements. When there are problems between an investor and a debtor, a distressed market agency (vulture fund) appears and buys the debt from the investor and sues the debtor in UFS courts, initially. The new architecture like the old is US based and uses the US Dollar as the currency of operations. This architecture does not cover the new OTC operations and the newer instruments such as derivatives and other innovations.



Source. IBID.

IMF obsolescence

The 2008 crisis began to unfold after the signals of August 2007, namely a turn in the stock market trends and strong signs of bank over exposure with doubtful instruments in the US, but the IMF *Financial Stability Reports* (FSR) did not look that way. This was the case of IFIs that have a North South agency role. The FED has become the new lender of last resort so that the European Central Bank did a swap with them in late 2007 and the IMF kept very silent. "In December 2007 the ECB agreed with the Federal Reserve System a currency arrangement (swap line) in connection with their US dollar Term Auction Facility (TAF). Under this agreement, two operations with a maturity of one-month amounting to USD 10

billion each were initially conducted, subsequently renewed in January and expanded in mid March to USD 15 billion each, while announcing that the USD funding operation would continue for as long as needed."[ii] The IMF did not blow the whistle and hence did not warn its members in order to prevent the crisis from unfolding, nor did it participate, nor was it even called in by the parties involved. The size of the problems they had to meet and the funds required were larger than those they had available. Previously, the Mexican rescue of 1995 was done by the US Treasury, not the IMF, for example. "In 1995 the (US) administration's aim was to solve Mexico's liquidity crisis in full. In fact, the administration stuck to this objective despite the strong opposition expressed by many in Congress. In fact, the U.S. executive took a notable political risk in rescuing Mexico when it decided to use the Exchange Stabilization Fund monies for an unprecedented amount." (Lustig, 1997) The IMF is left as a scare crow that puts harsh conditions on the demand side pushing down wages and requiring the privatisation of public enterprises but the funds are provided elsewhere when it comes to leading economies. This is clear in the European cases of Ireland, Greece and Spain. By having the G7 limited the role of the IMF to that of guardian of its financial interests in the rest of the world, it has eroded its credibility and created a stigma around it. Having an IMF agreement has come to mean being near bankrupt.

The actors and the governance issue

Changes in the international economy have transformed the leading seven economies, as defined in 1975 by total size of GDP from creditors to major debtors with massive fiscal deficits. This of course means that the seven leaders of the world economy as defined in 1975 by the size of total GDP have suffered a sea change. This shift is currently nowhere reflected in the world institutional power structure, IFIs or in the international monetary system. Neither have the quotas changed significantly at the IMF nor has the composition of SDRs been modified to reflect this change. In principle, according to article XIII, 2, b) of the articles of agreement, international reserves must be kept in the currencies of the five leading economies, 50% in USD and 40% in the other four currencies, the balance in gold and local currency. This in modern language means international reserves must be kept 50% in USD and the balance in Euros, Pounds and Yen, These are the currencies that make up the SDR basket in proportions of 44% for the US Dollar, 35% the Euro, and 11% for the Yen and the Pound, respectively. Unfortunately these are deficit country/region currencies with a very low growth outlook in the next decade or more, therefore weak and uncertain.(Ugarteche, 2011) The instability between them can be observed for example in the relationship between the USD and the Euro which between February 2006 and February 2011 has observed wide swings, with a mean of 1.3712 dollars to the euro, a median of 1.3550 and a standard deviation of 0.0916, for the period in a range between 1.60 and 1.10 Dollars to the Euro.

What has emerged after 1990, the demise of the Soviet block and the start of globalisation as we know it (Ohmae, 1990), is a group of former leading nations (old G7) that are now the major world debtors facing the pressures from the new emerging nations in the international arena. These are highly indebted rich countries (HIRC), to use the World Bank categories that have sustained very high trade and fiscal deficits for more than a decade and accumulated major debts, while globally reversing credit flows. These are countries that have over consumed systematically and in some cases done so with a very lax domestic credit and exchange policies. The argument was that the consumer in the West was better off with cheaply manufactured goods from Asia, Central America and Africa. The fact that no nation can borrow indefinitely for consumption did not come to mind. Initially surplus countries bought US Treasury Bills and kept their reserves partly in those instruments, and then it extended to Japanese, British and European Government bonds and since 2011 reserves are also being held in Yuan. It was not very clear that buying Government bonds in large quantities was going to lead to over borrowing on the other side. The debt of the European periphery was not important during the decade. It was the overconsumption from Japan, the US and the larger European nations that were partially financed by growing international reserves around the developing world.

At the same time, the net reserves position switched. The table below shows the picture of the former G7 countries that hold roughly one-third the level of

international reserves of the new leading emerging nations. (Table 1, column I) If Japan is removed, the group of leading nations holds one sixth the reserves of the seven largest emerging nations, most of which are from Asia. Public debt, in local currency is highest for Japan, Italy, France and the US in the 70-130% of GDP range. The very high level of Japan's public debt is mostly a result of the banking crisis of the 1990's, and if added up with private external debt is in the over 200% of GDP range. (Table 1 column 4) The new G7 countries are creditors in net terms save Brazil with a 35% national debt.

The situation in 2008 deteriorated as bank rescues were introduced, reduced consumption was forced through austerity measures and taxes were raised. The consequence is that the debt indexes look far worse in 2014 while growth perspectives wilted further.

Table 1

Old and new G7 comparative indexes
December 2008 and 2014

	1	2	3	4	5	6
	International Reserves 2008 (4) **(Bns USD)**	**General Government Net Public debt % GDP (3)** **2014**	**GDP (PPP) % Total World GDP**	**General Government Net Public debt % GDP* (3)** **2008**	**GDP per capita (PPP) 2008** **(1)**	**GDP Growth 2010-2013 Per annum** **(2)**
Japan	1,091,485	227,70	5,7	129,49	34,831	1,9
Germany	217,144	74,70	3,81	65,1	37,208	2,1
France	160,841	95,00	2,87	68.1	34,945	1,2
Italy	153,931	132,10	2,34	102.3	29,894	0,5
USA	132,933	71,20	19,88	72,69	48,387	2,2
Canada	58,707	92,60	1,8	33,5	40,107	2,4
Great Britain	29,224	86,60	2,93	74,01	35,982	1,5
Old G-7	*1,844,265*	111,41	39,33	78,29	*37,336*	1,7
			Old G7 Estimated GDP p.c 2020 *41,899* USD New G7 Estimated GDP p.c. 2020 *38,489*USD before inflation			
China (1)	2,622,000	22,40	13,98		8,304	8,8
Russia	484,158	13,40	2,98		16,750	3,4
India	299,226	51,30	5,48		3,563	7,2
Brazil	297,696	59,30	2,91	35,5	11,805	3,4
South Korea	295,956	37,20	1,97		31,404	3,9
Hong Kong	273,176	37,00	0,43	0	47,634	4
Singapore	227,110	106,70	0,35		59,582	6,9
New G7	*4,499,322*	46,76	28,1	5,07	*25,577*	5,4

Sources: IMF, (Jan. 2011 report),
(1)CIA, https://www.cia.gov/library/publications/the-world-factbook/rankorder/2188rank.html,.
(2) http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG
(3) https://www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html
* Public debt is measured in domestic currency

Table prepared January 2009 by Leonel Carranco Guerra, project www.OBELA.org, at IIEC UNAM and updated 13 May 2015

The long run (20 years) growth trend excluding 1985-2004 is 2,4 for the Old G7 countries and 6,2 for the New G7 countries excluding the Russian Federation.

The long-term growth perspectives for the old G7 countries will be one third that of the new G7 countries in the long run, 1.7% versus 5.4% *ceateris paribus*, until

they balance out their fiscal and external accounts and reduce the weight of the national debt on the national budget, if the trend established between 2010 and 2013 remains. If they were to return to the previous long term trend it would be 2.4% versus 6.2%. In both cases, the convergence pattern in the total size of GDP is established and somewhere over the next two decades those two sets of countries will have the same size.

The new phenomenon of slow growing highly indebted rich countries, to use World Bank criteria, has introduced a level of volatility in world currency markets nonexistent before the 1990's as well as a new trend in the flow of funds conventionally read from the North to the South. It has also made the governance of IFIs obsolete as they were based on the old G7 country international economic structure. However, the current governance of these Government international institutions reflects more the fact of the power highly indebted rich countries (HIRC) than that of a powerful economic community, which old G7 countries constituted up to the 1980's. The size of GDP per capita no longer reflects the potential of the economy. In fact, all things being equal, in ten years, if growth rates are maintained, both sets of countries will have the same GDP per capita in PPP and the 31% difference will have been covered. Might this be the success of the export led model? What happened between then and now was the generalized application of export led policies which inverted the creditor and debtor relationship, where developing countries turned into underconsuming major surplus economies and major developed countries turned into over consuming

economies that borrow the difference from developing countries. To put it in terms of the Governor of Bank of China's words, never before has a reserve currency been credit based (Zhou Xiaochuan, 2009). The international system must reform to take these changes into account. The end of Bretton Woods and the trasnationalization of the world economy launched the world system beyond Bretton Woods. Any deal relating to Bretton Woods takes into account the past economic structure that is in the process of fading out.

The reserve currency

Ocampo (2009) and Xiaochuan (2009) deal with the issue of the US dollar as a reserve currency and refer to the Triffin dilemma as a major problem because national economic interests can be contradictory with international economic interests thus making the nationally based reserve currency a contradictory one. Both Xiaochuan and Ocampo underline the fact that what is good for the health of the national economy of the reserve currency nation; can be bad for the health of the international economy. They both refer to the extremely high deficits in the leading economies and their impact in the value of the reserve currency. This can be appreciated for example in the volatility of the USD-Euro exchange rate. (See graph 1) It has for example a standard deviation of 11.9% between March of 2008 and May of 2009 while ten years earlier it was scarcely 4.1%.[iii] It is the result of active monetary policy by both the FED and the ECB in light of the financial crisis.

Graph 1

Source: OANDA

Both authors recommend an enlarged and renewed SDR mechanism that faces first of all US veto power to prevent this from occurring. But more importantly, the articles of agreement have defined the currencies recognized by the Fund in the said article XIII, 2, b. So introducing currencies currently not considered as reserve currencies into the SDR basket requires a major change at the IMF, that recognizes new actors and withdraws US veto power.

In December of 2005 the Fund said

> "The criteria for selecting the currencies in the SDR basket are the same as in the previous (2000) review: The currencies included in the SDR shall be the four currencies issued by Fund members, or by monetary unions that include Fund members, whose exports of goods and services during the five-year period ending 12 months before the effective date of the

revision had the largest value and which have been determined by the Fund to be freely usable currencies in accordance with Article XXX (f). In the case of a monetary union, trade between members of the union is excluded from the calculation.[iv]

The definition in article XXX (f) is "(**f**) A freely usable currency means a member's currency that the Fund determines (I) is, in fact, widely used to make payments for international transactions, and (ii) is widely traded in the principal exchange markets."[v]

A new changed SDR basket would need to include China, India, Russia and Brazil with the new proportions emerging from international trade. For this to happen, those countries would need to trade in their own currencies and establish an international currency market for them. This has not happened before as international prices were set in USD and settled in that currency. China has taken a step in this direction by agreeing to trade in local currencies with a list of countries of Asia and two in Latin America, Brazil and Argentina. "To date (10-4-09), China's central bank has signed currency swap agreements totalling 650 billion Yuan with six monetary authorities, including Korea, Hong Kong, Malaysia, Indonesia, Belarus and Argentina."[vi] Equally, Brazil has established an agreement to trade in *reales* with Argentina[vii], China[viii] and Colombia[ix] and the issue was approved at the ALADI Board level.[x]

Any reform of Governance at the IFIs must take these elements into account and reflect it well. Otherwise the tendency for regionalisation will strengthen further and in the extreme make IFIs useless. The future of IFIs as it stands is that of the BIS in 1945 unless major reforms are made not only to the quota system but also to the articles of agreement. In March, 2008 reforms were introduced at the IMF and they said "the agreement will adjust quota shares to better reflect the relative weight of member countries in the world economy, particularly that of dynamic emerging countries"(IMF, 2008). Essentially what happened was a small increase in some members quotas, a fraction of a percentage point but all major actors remained essentially the same and no substantial changes were reflected (Bryant, 2008). Reforms like those introduced in March 2008 only serve to alienate further its constituents.

A note on the inclusion of monetary blocks in the SDR

The criterion for introducing the Euro as a block currency in the IMF calculations of the SDR is that the process of European integration has given way to a supra national currency, the Euro. This process of financial integration has advanced to the point where it is a currency for a single national block, the European Community.

If we follow the same reasoning with other regions undergoing financial integration that reflect a process of economic and political integration there appears to be the NAFTA-CAFTA-Caribbean Community process, that also

includes Colombia, Peru and Chile. This is the left over of the Clinton FTAA initiative of the 1990's and might be referred to as the core US Dollar region. Asean+3 with the Asian Currency Unit follows; then come two African unions that use the French Franc as a common reference; then the Rand zone of southern Africa and finally the Emirates CCASG of the Middle East. In this logic, if we were to include a new rouble zone in the making, a new basket would need to include the following weights shown in the table below.

Table 3

BASKET WEIGHTS OF TRADE AND GDP				
		GDP (%)	**TRADE (%)**	**WEIGHT (%)**
Euro Zone		15.49	28.52	22.00
US Dollar Zone*		25.53	16.18	20.86
Rouble	Zone	3.64	2.84	3.24
ASEAN +3		21.27	18.46	19.87
CCEAG**		1.58	3.21	2.39
ECOWAS***		0.12	0.09	0.11
WAMZ****		0.56	0.46	0.51
COMESA*****		1.28	0.83	1.05
RAND ZONE		0.77	0.59	0.68
UNASUR		2.93	1.95	2.44
India		4.70	1.42	3.06
Pakistan		0.65	0.17	0.41
Other dollar zone		21.47	25.30	23.38
				100.00
*Is composed of NAFTA, CAFTA and Caribbean Community member countries.				
** Cooperation Council for the Arab States of the Gulf				
***Economic Community of West African States (ECOWAS) ****West African Monetary Zone (WAMZ) *****Common Market for Eastern and Southern Africa				

Source: CIA-UNCTAD

A starting point for reform is the monetary block issue. Having a monetary block in the current SDR but a quota system by countries on the board of the IMF

does not seem to be consistent. The Euro zone is a monetary block that expresses the European Community and should thus have proportional representation on the board of directors while all the other blocks could have increased proportional representations. The table above is presented as an example and is not exhaustive of all zones nor of all-important independent countries. A more stable SDR basket could be built using partial regional baskets instead of local currencies or a mix. The four currencies included in the SDR belong to large overborrowed low growing economies and the weights do not reflect neither their GDP nor their trade weight in total world GDP and trade.

The new international economic order and development after Bretton Woods II

The accumulation of export surpluses over a twenty year period has allowed leading deficit countries to over borrow *in toto* private and public debt. The significant new role of Asia as a whole in both international trade and international finance calls for a reconsideration of the IMF/WB Board reflecting this major change and diminishing the European role. The democratisation of IFIs should include the use of the population weight in a basket that is now only designed with the weight of GDP. This should also lead to the elimination of US veto power established in 1944, which now makes no sense, and to a change of the mechanism by which each BWI has a director from Europe and the United States, respectively and never any from anywhere else in the world. This is hardly relevant these days, aside from being undemocratic, opaque and biased in favour

of old economic and financial realities. A system where macro economic policy leads to massive surpluses that help finance massive deficits created by the model itself cannot work forever, as the 2007 –2011 crisis has come to show. Finally, the creation of a new reserve currency designed in 1968, with the weights of the world economy as perceived in 1968 bears no relationship with the new realities.

The effect of export led growth for Latin America in general has been a process of deindustrialisation and specialization in new primary goods exports. For Asia on the other hand is has been an opportunity for export substitution. The difference between one region and the other is the role of the State and the process under which the transition from import to export substitution happened. Amsden (1989) and Wade (1990) in their important works on East Asia point out to the importance of the State as a guide in the process of industrialization throughout export substitution from primary to complex. Contrary to the evidence, the WB (1990) produced the *East Asian Miracle* that constructs the idea that laissez faire policies gave way to new entrepreneurship that led the miracle. It was a market led miracle according to them. Analysts point out in the direction of misrepresentation in the WB study and moreover of having fabricated a paradigm by fitting facts into a neoclassical theoretical framework.(Wade, 1990)

The consequence of freeing the markets has been at least twofold. On the one hand productive activity was replaced by the financialization (Epstein, 2005) of the economies with the result of the 2007-2011 global financial crisis Secondly

world income concentration grew even further (Wade, 2001). Thirdly we have seen the process of reverse aid mentioned earlier as poor surplus economies finance large deficit economies that has fed into the second. (Ocampo, 2009)

The debt issues today and defaults

Sovereign defaults are not what they used to be when bank lending presided over international credit. (1960-1982) The rebirth of the sovereign bond market in the 1990's after sixty years, came together with its insurance: credit default swaps (CDS). These are derivatives used as insurance by bondholders against what may be perceived as a high default probability. For example, when Ecuador's president Correa assumed power in January 2007, CDS where issued against Ecuadorian bonds betting that Ecuador would default. If Correa had defaulted, the CDS holder would have paid the market price for the bonds to the bondholder and assumed their ownership, thus leading to lawsuits to recover their nominal amount plus past due interest and charges. This has changed the manner in which defaults are faced today. "The $58 trillion notional market in credit default swaps — double the amount outstanding in 2006 — is regulated by no one. Neither the SEC nor any regulator has authority over the CDS market, even to require minimal disclosure to the market."[xi] In the case of Ecuador it was not clear who had bought the CDS and the Government would have been well served to know if opposition party members where betting against the default, thus leading an international press campaign around the issue. The CDS market like all

derivates markets are made of bets which in turn raise the price of the derivatives if more agents enter the game. The CDS instrument works well when one debtor defaults with a limited impact on the market. If all major debtors default, like in the case of hedge funds in 2008, then CDS holders go bankrupt. This is partially what took AIG to the grave in 2008.

The fact that sovereign defaults did not occurr over the four years into the crisis (2007-2011) does not mean the elements for default are not present in 2015. There are nine different categories of countries in terms of wealth and debt according to the Wold Bank: Rich, middle income and poor, highly indebted, medium and low. What has been observed is that there are now highly indebted rich countries (HIRC) with far more complicated problems than there opposite HIPC due mainly to long lasting fiscal deficits and an economic policy based on over consuming what other exporting countries are under consuming using external debt private and public to finance them. Problems have arisen mostly in Japan and Southern European economies were IFIs did not either foresee the problems nor design a solution or a mechanism for such a solution. It was supposed that problems would be posed initially in those countries that suffer from "original sin", where all public debt is foreign held. (Eichengreen et al, 2003) This is mostly Africa and to a lesser degree Eastern Europe that has not yet developed a domestic securities market. Latin American countries have to some extent replaced external debt for domestic debt thus becoming more resilient to balance of payments restrictions. These are the cases of Mexico, Brazil and

Argentina, mostly but also from other countries in the region that have used the funds provided by domestic private pension funds to hold Governments bonds (Reinhart and Rogoff, 2008). Eastern European countries have been very affected but not as substantially as Iceland, Ireland, Portugal, Spain and Greece.

Nevertheless, these suppositions turned out to be wrong and HIRC are the issue, with not enough emphasis yet placed on either Japan, Great Britain nor the US that all have more than 80% of public debt to GDP which implies a major share of the national budget assigned to debt repayments while new bonds have higher costs with the restrictive implications in terms of government expenditure, public investment and public sector wages. The crisis has not hit neither Europe nor the US nor Japan seriously because interest rates are at near cero levels. A rise in interest rates with debt levels wondering the 100% level will mean 1% of GDP excess payment per 1% of increased interest on public debt.

This time increased international reserves have gone hand in hand with increased domestic debt in Latin America which is neither the case in Eastern Europe nor in Africa. Reinhart and Rogoff argue that:

> First, domestic debt is large—for the 64 countries for which we have long time series, domestic debt averages almost two-thirds of total public debt; for most of the sample these debts typically carried a market interest rate, except for the era of financial repression after World War II. Second, recognizing the significance of domestic debt goes a long way toward

explaining the puzzle of why many countries default on (or restructure) their external debts at seemingly low debt thresholds. In fact, when heretofore ignored domestic debt obligations are taken into account, fiscal duress at the time of default is often revealed to be quite severe.4 A third and related point is that domestic debt may also explain the paradox of why some governments seem to choose inflation rates far above any level that might be rationalized by seigniorage revenues leveraged off the monetary base (e.g., as in Cagan's classic, 1956, article on postwar hyperinflations). (p.2)

Since 2011 falling export revenues in hand with falling tax revenues will press those poor and middle-income countries that have a total high indebtedness of both domestic and external debt. The external debt position alone is not sufficient to address the threshold of defaults because these can happen due to falling export revenues or falling tax revenues, or both, which is usually the case in major crisis, like the 1930's. The 1930's must be kept in mind because of the impact of the Hoover Year on European economies.[xii]

Reinhart's and Rogoff's paper stresses the need to have a full vision of debt, not only external, which is the most studied. In Ugarteche (2008) a discussion is made of the types of measurements required. Such an argument is made on the grounds of material developed in the 1920's when the problem of domestic debt and external debt was in the open. This means domestic debt series must be

constructed and made public for all IMF member countries in stock and flow series with GDP as a denominator so both external and internal public debt can be added. Currently, as the authors point out, it is a feat to find the data. The denominator is currently exports but total debt service is in the extreme paid with fiscal revenue. International comparative indicators then must be made adequate to this reality.

Sovereign debt problems burst usually when falling revenues meet with rising interest rates that usually appear when the monetary policy of the lending country is tightened due to higher inflation, as its economy starts to recover. This is true for both domestic and external debt as was seen in most works on the 1980's debt crisis and for the aggregate in the mentioned paper. The tightening of US monetary policy will have consequences in this field if history if is to repeat itself.

Aside from the metrics the issue is how to restructure those debts. This reintroduces the issue of international board arbitration for sovereign debt. (Ugarteche & Acosta, 2007)[xiii] A.O. Krueger made a proposal from the IMF. (SDRM)[xiv]in 2002 and before that Raffer (1990, 2010) who first elaborated on the concept after the 1930's. (Helleiner, 2008) What is required is a global system and not one designed for developing countries, nor HIRC. Both creditors and debtors are new to the problems faced given it is emerging markets that bear the brunt of credit to leading economies in the form of reserves held in T Bills in the four reserves currencies. The new debtors are HIRC that previously have had no experience with debt other than the First and Second World War debt owed to the

US and mostly condoned, including the German debt in 1952, thus a new global mechanism is required (Acosta & Ugarteche, 2007)

After the 2008 crisis the proposals made on debt negotiation by the South Centre with the Third World Network[xv] aim at

1. The right of developing countries that have been experiencing large and sustained capital outflows to exercise temporary debt standstills and exchange controls should be recognized, and statutory protection should be granted to these countries in the form of stay on litigation with IMF support and on lending

2. There should be a moratorium on debt servicing by low-income countries to official creditors, including the World Bank and the IMF, at no additional costs.

3. The restructuring of sovereign debt should be based on negotiations with private creditors and facilitated by the inclusion of rollovers and collective action clauses in debt contracts.

4. A call for an international system of impartial debt arbitration needed to settle sovereign private and official debt disputes.

Regional developments since 2008

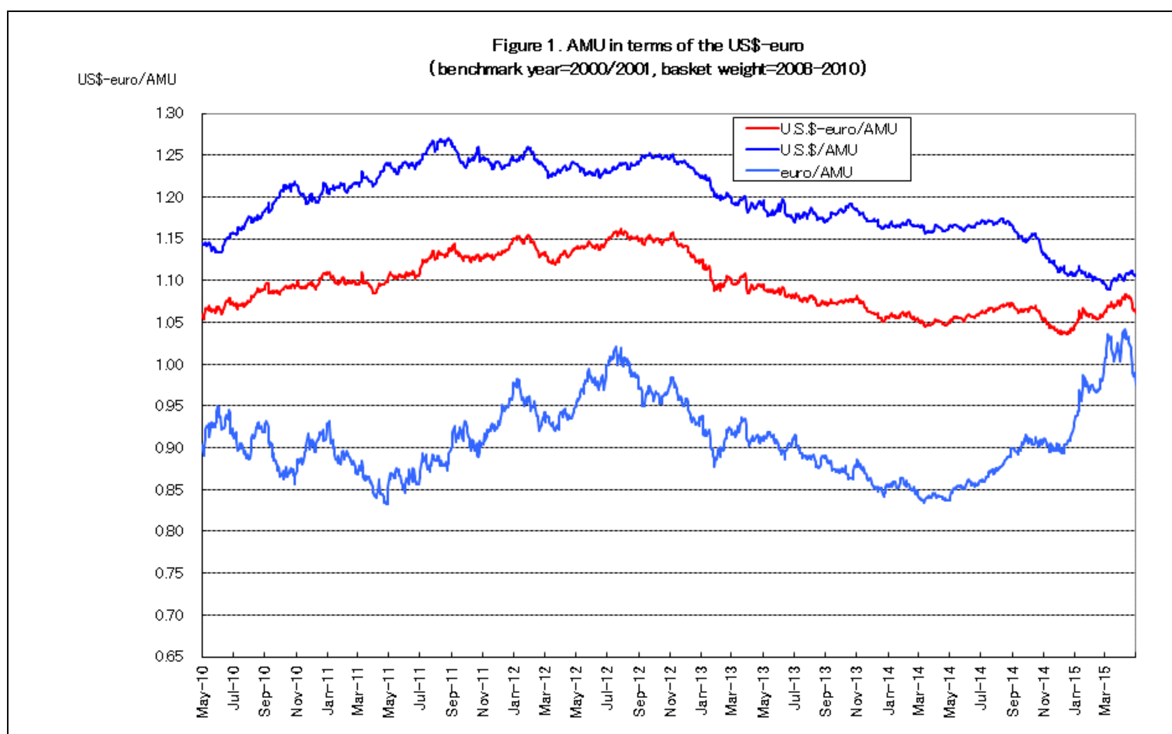
Since the beginning of the crisis there have been various efforts from the IMF and the regions to try and face the coming problems with swift mechanisms. The most advanced is the Chiang Mai Multilateral stabilization fund signed in November

2008 constructed with the previously established bilateral swap agreements amongst Asean central banks. The innovation is that it now includes China, Japan and South Korea in an Asean+3 arrengement. The backside to this is that it requires IMF approvals between tranches just as if it used the IMF itself.

In late 2008, the ASEAN member nations agreed to establish a multilateral Chiang Mai Initiative fund CMIM for 80 bn USD. This was expanded in February 2009 into 120bn USD that is almost the same as the IMF has for the entire world before the November declarations.[xvi] According to the FT the IMF, which has $142bn in quickly available resources and $50bn it can raise rapidly, recently finalized an agreement to borrow an extra $100bn from Japan and a further $150bn from other member governments adding up to nearly 450 bn USD.[xvii]

An Asian Currency Unit accompanies this initiative. There exists a Japanese Asian Monetary Unit that is measured daily and gives an idea of the value of the regional currencies vis a vis the US dollar/euro average. There is a discussion on whether it is the AMU or the ECU that is more solid but the measurement exists and shows greater stability given the monetary cooperation agreements established within ASEAN to make this possible. The important part of the monetary agreements is that it facilitates intraregional trade thus stabilizing extraregional currency flows. The ASEAN process goes in the direction of a monetary block in the long run. In the short run it is an agreement to keep exchange rates stable within the region.

Graph 3
Daily Value of AMU (vs. US$ - euro, US$, and euro)



Data period: previous 4 years
Source: http://www.rieti.go.jp/users/amu/en/

A similar process is in place in South America as was pointed out before. The various initiatives that are being discussed slowly range from the constitution of a new generation development bank, followed by a regional currency unit, and a stabilization fund, which would mean a strengthening of the existing Latin American Reserve Fund. More recently the announcement of the establishment of a UNASUR economic council points in the same direction of macroeconomic policy coordination. This could allow for the establishment of a South American Monetary Unit that could serve as a reserve currency made up of a basket of local currencies, much as the AMU concept and the SDR concept.

GRAPH 4. CAMLA – basket of currencies
(base 2006-2007)

Source: Ugarteche, "La CAMLA un cesta monetaria latinoamericana", in Mantey and López *La Integracion Monetaria en Am~erica latina*, FES Acatlan UNAM, 2014.

Both of the above initiatives follow in the European monetary system pattern and for the same reason, the stability in intraregional trade and capital flows. These are growing as fast over the last fifteen years that global trade and capital flows. If Venezuela is excluded, it is much faster.

Table 4

Annual growth rates of international trade of goods Weighted average				
Period	1995-2007		2000-2007	
Country	**South America**	**World**	**South America**	**World**
Argentina	6	8	8	11
Bolivia	18	13	24	19
Brazil	11	11	16	16
Chile	9	13	15	20
Colombia	11	9	17	13
Ecuador	14	10	19	16
Paraguay a/	6	7	10	12
Peru	16	14	26	22
Uruguay	3	7	5	10
Venezuela a/	-2	12	0.2	11
Total South America	**9**	**11**	**13**	**12**

a/ last available year 2006
Prepared by Aline Magaña Zepeda
Source: Anuario Estadístico de América Latina y el Caribe, 2008, CEPAL

The aggregation of all regional initiatives might be a way forward for a decentralised and more politically balanced international monetary system, biased today by US Treasury interests and power used through its veto power at the IMF.

- The persistence of procyclical policies after the G20 meeting announcements[xviii] on counter cyclical policies in their loans, only serves to alienate further member countries that are looking for a reform of the international financial architecture. It is very evident after the G20 Summit in London that there are two rules of the game and that the lack of change of the leading country in its policy makes institution reform even less attractive. It seems to centre on more funds with no policy change and above all without the inclusion of all member countries in its

scope of action. It remains a North South institution as it was after 1975 and the formation of the G3.

What is shaping out is a group of regional institutions that might conform monetary blocks and give space for a reconfiguration of existing IFIs. Some regional institutions created have been the BRICS bank, The BRICS stabilization fund, the Asian Infrastructure Bank, The Latin American development bank, with 22 member countries instead of the Banco del Sur with seven; the European Financial Stabilisation Fund and the European Emergency Fund. In all cases, the change in the global economic structure changes completely the actors and their weights and introduces the need for a more dynamic and democratic system, with new institutions in the way. The IMF needs a democratic reform in exchange for the existing old fashioned system of "colonial countries elect their peers" system, left over from the *Pax Americana*.

A major shake-up at the Fund would also mean a descaling of the institution with more concentration in parts of the world where regional institutions are still not formed and more cooperation with those regional institutions that do exist or are in the process of being construed. The risk is that it may become irrelevant, as it already has turned since the start of the century. The proposed solution of changing the managing director and having one from the South might improve its image but if the same policies remain in place, this will not help multilateralism.

The position of the United States and Great Britain at the G20 meetings is centred on keeping the Fund as it is with more resources in the logic that this keeps US power and especially the financial sector influence, intact. “The agreements we have reached today, to treble resources available to the IMF to $750 billion, to support a new SDR allocation of $250 billion, to support at least $100 billion of additional lending by the MDBs, to ensure $250 billion of support for trade finance, and to use the additional resources from agreed IMF gold sales for concessional finance for the poorest countries, constitute an additional $1.1 trillion programme of support to restore credit, growth and jobs in the world economy. Together with the measures we have each taken nationally, this constitutes a global plan for recovery on an unprecedented scale.”(2009 G20 London Communiqué)

The fact that US international economic policy has not changed after the Bush administration demise serves to point that it is a national policy and a show of power of the financial sector within the US Government That is why after the G20 meeting in Washington in November 2008, with Bush, the US position did not change under Obama and was supported by Great Britain in April 2009 in London. The point of discussion over the Stiglitz Commission Report and the place for discussing economic and financial issues if at the UN or at the G20 went to the G20. “The view that UN global reforms are a revolutionary group of ideas not only

seems to be outdated in international affairs –*aprés le mur*– but also ignores the importance of a new multilateralism in a global world."[xix]

The various initiatives for a reserve currency reform are a second bone of contention. The fact that a reserve currency cannot be credit based grounded on foreign aid makes the issue senseless. The way forward is a supranational reserve currency as both Chinese Central Bank Governor and Ocampo have suggested and for the additional reason of the Triffin dilemma which today is more poignant. National economic interest may conflict with international economic interests. More unbacked US dollars help the US economy reactivate but deteriorate the value of the reserve currency that by definition must be scarce.

The issues of financial market regulations are complex and must be addressed at the national level in international financial instruments issuing countries, and the global level, to keep pace of trade. No one can prevent a major crisis from recurring unless there is an agreement on new rules that regulate and monitor financial instruments of various complexities issued mostly in the US and UK and traded around the world. This implies that innovative financial instruments would need to be registered in an international entity before they enter the market and could not be used without control. This means new functions should be given to IFIs as well as a new design is made of the IFA. This is already reported by Edward Truman. (2010) President Obama took the first step in this

direction in May 2009 when he announced the derivatives reform act and later the Dodd-Frank Wall Street Reform and Consumer Protection Act in the US in July 2010, opposed by derivatives traders[xx] and bankers alike during the discussion period. However the fact that international financial instruments they are traded worldwide means that national regulation is important but not unique nor a replacement for global supervision of derivatives and other instrumetn6s. This was addressed also in London by the G20 but also ignored thereafter. Issuing countries must regulate financial issuers because they are their responsibility, but international traders and operations must be supervised as well in order to prevent the unsuspected contagion we have seen in the crisis started in October 2007. "Bankers and hedge fund managers are fond of saying, 'If you place restrictions on our activities in New York, we'll just move elsewhere -- like London.' This makes attitudes toward the financial sector in other countries -- particularly Britain -- highly relevant to the American public policy debate on financial regulation."[xxi]

In the new global context, then, with a major leading role for Asia in the new international financial architecture and a new enhanced role for Latin America and the Middle East, Russia and its neighbours, in world financial and economic affairs, it is evident that the new debtor nations are in no position to place rules of the game, as other debtor nations learnt previously in the 1980's. Finally, given de global scope of the issues, United Nations is the only space for future discussions on global reforms.

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Brief Bio

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