

INTERNATIONAL MONETARY FUND
WORLD BANK GROUP

J

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

Press Release No. 29

October 6 - 8, 1998

Statement by the Hon. **EDGARDO B. ESPIRITU**,
Governor of the Bank for the **PHILIPPINES**,
at the Joint Annual Discussion

Statement of the **Hon. EDGARDO B. ESPIRITU**, Governor of the Bank for the Philippines at the Joint Annual Meetings of the World Bank and the IMF

The joint meetings of the International Monetary Fund and the World Bank are taking place this year amidst one of the most severe tests to world economic stability in the last two decades. Not since the severe economic contractions of the early 1980s, triggered by the large debt overhang of many developing countries and the weakening of the financial systems of creditor countries then, have we seen a crisis as pervasive as the present one. Not even the Mexican crisis in the early part of this decade can compare with it.

Indeed, some even go so far as to say that the world economy is today under the worst threat it has experienced in the post-World War II era. According to them, if ever there was a crucial test for the Bretton Woods institutions' ability to fulfill their missions of guarding the stability of the world financial system and bringing about sustained economic development, this is it.

The fact that the present crisis began in the emerging economies of East and Southeast Asia, which have long been considered the bastion of the idea that free markets are the best way of bringing about continued economic prosperity, makes it all the more significant. It seems that it was just at the very high point of the world's faith in the market, even among those countries that used to be under so-called command economic systems, that suddenly this turmoil erupts. Thus, many now again doubt the ability of the market to achieve the desired results. In fact, some countries have begun or are considering moving away from free market principles. This, to our mind, is rather unfortunate. The market has served the emerging economies of Asia and of other regions well. Moreover, most of those who have studied the causes of the Asian crisis have come to the conclusion that among these causes is the fact that there were distortions and

structural deficiencies in the crisis countries that prevented markets from working well. One should not therefore be too hasty in discarding free-market based economic policies.

Yes, the players in the market should not be left to their own designs. But governments should resist any temptation to again put free markets in fetters and to abandon liberalization altogether. Governments, though, will have to redefine their role in the economy as well as the idea of liberalization. Essentially, I believe government's crucial role is to provide a clear, transparent and evenly applied regulatory framework. Government should not compete with the private sector nor arbitrarily intervene in its economic decisions, but it should likewise ensure that the institutions and mechanisms required to effectively oversee economic activities, particularly those of the financial and corporate sectors, are present.

Without going into any further discussion of the swings in sentiment throughout history between the relative merits of the market and of the state in organizing economic activity, let me just observe at this point that at least two of the economies originally hit by the crisis are now on their way to recovery after painful but still market-oriented measures. But new threats now loom on the horizon. The troubled emerging economies have relinquished center stage to the giant economies in the region. It is what happens to the currencies and economies of these big players and the contagion effects on other economies, that reach as far as Latin America, that now threatens world economic stability. It is now feared that if the disease in Asia worsens, the outbreak will reach the industrialized countries themselves.

The joint meeting this year therefore cannot but include in the agenda the question of how to prevent another global depression. Even with the continued robust performance being exhibited by the world's biggest economy, the United

States, still we cannot ignore this threat. The suddenness and the unexpected gravity of the Asian crisis should have taught us this.

The character of the world economy is vastly different and more complex than that prevailing, say, in the 1930s, or even in the early 1980s. The high level of global integration and capital mobility that now prevails has made uncertain whether solutions that worked before would still work today. But we are still optimistic that on balance, the accumulated knowledge and experience on the workings of the world economy; the flexibility and adaptability of the countries and institutions involved; and the greater avenues for cooperation available today, will enable us to avert another global recession.

We in Southeast Asia, together with certain other countries in the Asia-Pacific region, have realized earlier on the great need for cooperation in meeting this crisis and have come up with the so-called “Manila Framework” for this purpose. This framework provides for, among others, the establishment of a regional surveillance mechanism to complement the global surveillance being done by the IMF; for enhanced economic and technical cooperation, particularly in strengthening the financial systems of the countries in the region; and for a possible cooperative financing arrangement to supplement IMF resources.

I wish to reiterate my country’s support and endorsement of this framework. While recognizing the central role of the IMF in keeping global financial and economic stability, we believe that a specifically region-based and quick-responding surveillance and cooperative action mechanism would help the Fund a lot in achieving this objective. We are happy to report at this point that there has been substantial progress towards establishing such a mechanism. The ASEAN senior finance officials who have been tasked with carrying out the intent of the Manila Framework have in their meeting in Kuala Lumpur last month, laid the groundwork for the setting up of an ASEAN Surveillance Technical Support Unit. This Unit, which will be based in Manila for two years and which will be

assisted by the Asian Development Bank, will provide technical and capacity-building assistance to ASEAN governments towards putting the surveillance mechanism into operation. Hopefully, through this mechanism we shall be able to detect early enough any incipient problem or vulnerabilities in the region's economies and to take prompt cooperative action to remedy or contain them

It is also very encouraging to hear the recent announcement from Japan's finance minister, Mr. Kiichi Miyazawa of a Japanese assistance package for the crisis economies. This gives us renewed confidence that an important neighbor in the region is serious in its intention to take on a leading role in efforts to address the crisis.

We wish to note at this point that both the Fund and the Bank have, by and large, responded quite well to the Asian crisis, showing significant flexibility and adaptability in the process. More important than the foreign exchange funds they provided to ease the immediate liquidity problems in the affected countries as a result of the drying up of capital flows, they helped these countries to pursue reforms that address their points of vulnerability. The solutions and approaches are still evolving, in many cases with important inputs from the assisted countries themselves. The Fund has often been criticized for allegedly failing to find effective ways to lick the crisis. But the question may be asked, what would have happened, what further devastation would have taken place, had the countries concerned not carried out IMF stabilization programs and complementary World Bank safety net and structural reform programs.

I say that instead of becoming irrelevant, these institutions have become all the more important in facing not only today's immediate financial turbulence but also the other potential problems that could emanate from major global trends. It is true that there may be a need for a rethinking of these institutions' roles, their internal structures and dynamics, as well as their approaches to the problems of their member countries, but the general direction should be towards

strengthening rather than discarding them. We therefore view with a bit of concern what seems to be a lingering hesitation on the part of the Fund's biggest member countries to give it their full support by way of enhancing the Fund's capital base. We were, however, heartened to hear the statements made by President Clinton in his address at the opening of the joint meeting that the United States intends to keep its commitments to the Fund and that the G7 countries are now urgently working on a program that will strongly address the crisis.

With regard to the World Bank, there is apparently a need to address its own long-term viability problems to enable it to carry on with its important mission of fostering sustained economic development of its member countries. The present concern is how to check the declining trend in the Bank's net income while at the same time maintaining adequate reserves and meeting countries' demands for assistance at these difficult times.

We note with concern, however, that most of the measures that have been suggested to address this problem put the burden almost entirely only on one group of countries, namely, the borrowers. The Bank, it is true, has in the last two decades been facing new challenges and has had to attend to new kinds of clients with varying needs. These include the heavily indebted poor countries, the post-conflict countries, and now the emerging economies that have been hit hard by the crisis and its contagion effects. Whether it is appropriate to have a multilateral lending institution like the Bank shoulder the bulk of the responsibility of providing assistance to certain countries that have special links with potential bilateral donor countries, is one issue. But the more relevant issue now is the appropriate and equitable sharing of the burden of maintaining the Bank's financial viability. Just raising its lending rates, particularly on traditional facilities that cater to countries that have limited access to commercial funding sources, would indeed prove to be counterproductive and certainly unfair to these countries. As it is to all countries' interest to see that the Bank is in a position to

facilitate the return and maintenance of global economic growth, all member countries should therefore share in the costs of buttressing the Bank's resources. We therefore believe that a general capital increase is the most equitable way of maintaining the Bank's financial integrity while allowing it to continue to effectively fulfill its development mandate.

The return of global economic stability and growth should indeed be the concern of all countries as well as of the multilateral financing and development institutions. Everyone needs the help of everyone else. But individual countries have the responsibility of seeing to it that their respective houses are in order. In the Philippines, we are continuing to pursue painful reforms in spite of the current difficult environment. We are continuing with the liberalization of important sectors. We have made a conscious decision of maintaining our integration with the global economy regardless of the present crisis. We are resisting any temptation to reverse this sound long-term strategy in exchange for any momentary gain.

When we survey the world economy at this time when the century is about to close, we can recognize the tremendous changes that have taken place. The experience of the newly industrializing countries and the emerging economies has raised hopes that a broader range of countries can achieve sustained economic progress. But recent events have again dashed these hopes. In their place, the specter of a possible world depression is again visiting us.

But if we keep our wits about us, we would realize that we are now better armed in facing this threat. Among the advantages we now have compared to two or three generations ago is the fact that international organizations now exist that provide the vehicle for coordinated and cooperative action. The Bank and the Fund, which themselves are institutions born of earlier crises, are still around. They have many years of accumulated experience and knowledge, which although may still be in a state of flux in relation with the present crisis, are

nevertheless useful weapons in going into battle against it. In our part of the world, we have the ASEAN, which also provides a vehicle for regional cooperative efforts. Let us strengthen and make full use of these institutions and organizations. After all, it is merely stating a truism to say that the problems of an integrated global economy can be solved only within the framework of international cooperation.