Law and policy in international business

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The past decade has witnessed the systematic reduction of barriers to the free flow of goods, services, and capital across national borders. While these changes have facilitated faster economic growth and greater prosperity, they also pose new challenges. Developed and developing countries alike are now more exposed to dramatic shifts in their external position brought about by rapid changes in market sentiment.

Balance of payments crises have become a familiar–if unwelcome–feature of the global economic landscape. The Mexican peso crisis of 1994, the Asian financial crisis of 1997, and the collapse of the Russian rouble this past summer all point to the need for new mechanisms which will more effectively protect the stability of the international monetary system. The International Monetary Fund’s 1998 Annual Meetings, held in Washington, D. C.

during the first week of October, 1998, provided a forum for the IMF and its member countries to address this issue. The meetings reviewed a wide range of initiatives that seek to strengthen the “ architecture” of the international monetary system. The IMF is responsible for preserving the stability of the international monetary system. An important purpose of the Fund, as set out in the Fund’s Articles of Agreement, is to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

Strengthening the architecture of the international monetary system will enable the Fund to accomplish its purposes more effectively. The Fund’s work on strengthening the architecture is ongoing. Many of the relevant issues have been under review in the Fund for much of the past year. While a number of the strengthened architecture features are already in place, many others are still under discussion.

Surveillance is a principal mechanism through which the Fund seeks to preserve the stability of the international monetary system. Since the abolition of the par value system and the emergence of floating exchange rates in the 1970s, exchange stability has been preserved primarily through consultation and collaboration between the Fund and its members. Under Article IV, Section 1 of the Fund’s Articles, each member country undertakes “ to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates.”[1] For its part, the Fund is required to exercise “ firm surveillance over the exchange rate policies of members.

“[2]Surveillance principally takes the form of a system of annual “ Article IV consultations” between each member and the Fund. These consultations involve a comprehensive analysis of a member’s economy and economic policies. The analysis is prepared by the Fund staff after a series of extensive meetings with the authorities of a member, and is then discussed by the Fund’s Executive Board. Article IV consultations recognize that exchange stability will be most effectively ensured if each Fund member pursues prudent economic policies that are directed towards the promotion of exchange stability.

To this end, these consultations normally conclude with an appraisal by the Fund’s Executive Board of the member’s economic and financial policies. While the member is not required to accept the views expressed by the Fund in these appraisals, it is felt that sound policy advice from the Fund will encourage a member to correct policy problems before they lead to a balance of payments crisis. The Interim Committee of the Fund's Board of Governors (the Interim Committee) has proposed that the effectiveness of Fund surveillance be enhanced in a number of areas. First, it has been recognized that Fund surveillance will only be effective if it focuses on the issues that are most important for the promotion of exchange stability–for example, the liberalization of capital movements and the stability of members' financial systems. The Interim Committee has therefore proposed that these issues receive greater attention in future consultations with member countries. Secondly, it has been proposed that, in the future, Fund consultations place greater emphasis on the interdependence of the economic policies of member countries and the risks of contagion.

Contagion has become a popular economic buzzword of the late 1990s. In today's integrated and interdependent global economy, the effects of a balance of payments crisis in one member country can reverberate far beyond the country's borders to other countries in the region and in other parts of the world. A recent example of the Fund's recognition of the growing interdependence of the global economy is the meeting of Western Hemisphere finance ministers and central bank governors convened by the Fund's Managing Director in Washington, D. C.

on September 3 and 4, 1998.[3]. Notwithstanding the significant strides in macroeconomic performance and structural reform which countries in the region have made in the past few years, the economies of Latin America have been hit hard by recent crises in other emerging markets. The purpose of the meeting was to discuss recent global economic developments, their impact on the economies of the Western Hemisphere, and the strategies that the countries in the region intend to employ in response to this more difficult external environment.

The meeting was attended by finance ministers and central bank governors from the eleven countries in the region whose economies have the greatest level of interaction with international financial markets. The initiatives recognize the central role of the Fund in the resolution of balance of payments crises. The Fund seeks to fulfil this role primarily by providing financial assistance to member countries experiencing balance of payments difficulties. When it provides financing to a member in these circumstances, the Fund seeks to involve the member and the international community in the resolution of the member's balance of payments problems. The Fund only provides financial assistance to a member experiencing a balance of payments crisis if the member is prepared to implement the policies necessary to improve its external position. Thus, Fund financial assistance is normally provided in support of an economic reform program that is formulated by the member in consultation with the Fund.

In this manner, Fund financial support provides a " seal of approval" of the member's economic policies that encourages other members of the international community – international financial institutions, official creditors, commercial banks, and other private lenders – to provide additional financial assistance to the member. Fund financial assistance, therefore, plays a central role. Works CitedEichengreen, Barry. International

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[1] Leckow. Law and Policy in International Business, 1999: 3.[2] Leckow. Law and Policy in International Business, 1999: 4.[3] Leckow.

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