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# INTERNATIONAL FINANCIAL ARCHITECTURE AND THE OIC COUNTRIES

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The idea of reforming the international monetary and financial system has been one of the most heated discussion points before the international community. The sudden eruption of the Asian Crisis in July 1997 and its quick spread to other parts of the world further focused the attention on this matter. This report first discusses the basic elements of the international financial system established in Bretton Woods and concentrates on issues of international capital movements, exchange rate regimes, currency trading, financial standards, transparency and accountability, financial regulation and supervision, contingency financing, and participation of the private sector in the prevention and resolution of financial crises. Then, after discussing possible implications for the OIC countries, it concludes that the OIC countries must be prepared to participate effectively in the reformation process.

## 1. INTRODUCTION

In the 1990s, globalisation and liberalisation trends have been observed around the globe. Although the two terms are generally used synonymously, they represent, in fact, two distinct phenomena. Globalisation occurred as a result of technological developments and information abundance. Thus, the world economy has become more integrated and interdependent than ever before. Furthermore, globalisation is not a goal and it has not been a target or objective at all. It governs the world economy and the international division of labour, i.e., the articulation of all economies to the global economy. On the other hand, liberalisation is an objective or an aimed policy.

Liberalisation and globalisation efforts in the 1990s increased the importance of the external sector, particularly in the developing countries. Due to the partial elimination of tariff and non-tariff barriers, the economies of the developing countries have become open and vulnerable to severe competition from the outside world. Because of the

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highly competitive nature of the international economy, prices of goods declined. As a result, firms working with small profit margins and high production costs could not survive and had to leave the production scene. In short, they were wiped out from the market.

Furthermore, these efforts also resulted in a freer movement of private capital across the countries, including the developing ones. Of course, such a development appeared to be positive from the viewpoint of the developing countries, since they were in need of capital, particularly foreign capital, to realise their development aspirations. However, this happy beginning could not lead to a happy end. Instead, severe fluctuations occurred in national and international currencies and financial markets.

Furthermore, in such an environment, the 1994 Mexican and the 1997 Asian crises erupted. While the Mexican crisis was less contagious and limited in its effects, the Asian crisis spread to other parts of the world, especially Russia and Brazil, and influenced the global economy very negatively. This outcome was rather a new one in the history of the world economy since the Second World War. First, it was originating in developing countries as opposed to earlier ones. Secondly, increasing globalisation of the world economy has eased the transmission of crises across countries all over the world. Furthermore, the Asian crisis and its contagious effects have shown that private capital flows have become so large that the financial resources of individual governments and international institutions like the IMF may not suffice to control the speculative movements of the private capital. In fact, it was, in general, accepted that there was a need to reform the international financial system.

Ideas of reforming the international monetary and financial system have been voiced since the fixed exchange rate system collapsed in 1971 when the link of national currencies to gold through the US dollar was broken. That system was founded in Bretton Woods during the last days of the Second World War and guarded by the Bretton Woods Institutions, namely the International Monetary Fund (IMF) and the World Bank. Between the Bretton Woods Conference in 1944 and the collapse of the fixed exchange rate system in 1971, exchange rates changed only rarely. Since the 1971 monetary crisis, exchange rates, particularly of the currencies of major industrial countries, have been allowed to float freely according to their values as determined in international currency markets by the market forces. However, because the nominal values determined in the currency markets are likely to deviate from the real values, the speculative moves to profit from such a situation created vulnerable currency markets. During the period of floating exchange rates, considerable ups and downs have been observed in international currency markets. Some of them resulted in severe monetary and financial crises like the 1992/93 crisis affecting some European countries and the 1997 Asian crisis.

The 1997 Asian crisis hit the economies of the South East Asian countries following an uninterrupted economic growth of more than three decades. After such a prolonged growth, these economies were called the Asian Tigers. When the crisis first started in Thailand with the collapse of the stock market in July 1997, nobody expected that it would have such a negative influence over the world economy. However, it soon affected the neighbouring countries Malaysia, Indonesia, the Philippines and, by the end of the year, South Korea. Japan’s prolonged recession was deepened with a severe crisis in the banking and financial sector in 1998. Hong Kong and China were also affected to some extent. China, in particular, became the focus of great concern. But, the drastic news came from another region. The crisis hit the Russian Federation leading to the collapse of the financial sector on August 17th, 1998. The devaluation of the Russian rouble and a 90-day moratorium on foreign credit repayments caused an immediate loss of confidence in international financial markets. Shortly afterwards, Latin American countries, particularly Brazil, came under attack in their currency and financial markets. In almost all the emerging markets, there occurred an outflow of short-term private capital, particularly in the form of portfolio investment. Then, everybody realised that the global economy was now passing through one of the most violent crises ever lived.

The crisis brought very severe economic and social problems to the affected countries, particularly Indonesia, Korea, Malaysia, and Thailand. In these countries, the crisis resulted in an outflow of foreign capital, particularly in the form of portfolio investment, severe balance of payments difficulties, drastic falls in the exchange rates of national currencies and collapse of exchange rate regimes, bankruptcies of firms and banks, a severely rising unemployment, falling real wages, declining living standards and a deteriorating poverty situation. As a result, in 1998, economic growth decreased by 13.7 per cent in Indonesia, 8.0 per cent in Thailand, 6.8 per cent in Malaysia and 5.5 per cent in South Korea.

The degree of devastation the crisis caused in the countries of the region and particularly its spread to neighbouring regions and spill over effects over the world economy attracted the attention of governments, international institutions, regional organisations and the academia. Various measures were taken to correct the situation worldwide in the short run. Furthermore, considering the inherent problems of the international financial system and the failure of the Bretton Woods Institutions, particularly the IMF, in controlling the spread of the recent Asian crisis to other parts of the world, attention was concentrated on the reform of the international financial architecture.

In this regard, in various fora like the United Nations (UN), the G-7 (then the G-8), APEC, ASEAN, the G-15, the G-20, the Bretton Woods Institutions, namely the IMF and the World Bank and the other international financial institutions, like the Bank for International Settlements, etc., some efforts were made to reform and strengthen the international financial system.

Especially within the framework of the UN General Assembly, discussions were initiated on the problems of development and the international financial system after the 1994 Mexican crisis. Once that crisis was over, efforts were slowed down. When the 1997 Asian crisis erupted, the international community was alerted again. Early proposals were put forward for implementation before the international community. They included, first, improving the information and data standards for the monetary and financial variables, particularly in the newly industrialising or, in other words, emerging markets. Secondly, it was proposed to establish an emergency financing mechanism within the framework of the IMF.

The issue of reforming the international monetary and financial system has been one of the most crucial topics before the international community, especially during crises. However, the 1997 Asian crisis contributed enormously to that process. The discussion on the international financial architecture is still going on, concentrating mainly on issues of standards, transparency and accountability, financial regulation and supervision, currency trading, exchange rate regimes, international currency, national policies, the conduct of credit rating agencies, etc.

There is now a broad-based consensus on reforming the international financial architecture. Behind this consensus, however, there are many important issues still to be discussed and resolved by the international community. Developing countries must be prepared to participate effectively in the discussions to reform and strengthen the international financial system. Furthermore, the reform process should be continued without being slowed down, and the international financial architecture must be prepared for the next round of any currency or financial crisis, which may start hitting any country around the globe.

On the other hand, the OIC countries have also shown great interest in the matter, and the Twenty-seventh Islamic Conference of Foreign Ministers held in Kuala Lumpur, Malaysia, on June 27-30, 2000, issued a separate Resolution on the international financial architecture. Furthermore, it also requested the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRTCIC) to follow-up, study the matter, and submit periodic reports to the annual sessions of the COMCEC and to the subsequent Islamic Conferences of Foreign Ministers (ICFM). The present paper was prepared in line with the aforementioned resolution.

## 2. INTERNATIONAL FINANCIAL SYSTEM AND INSTITUTIONS

At the end of the Second World War, a conference was convened from July 1st to July 22nd 1944 in Bretton Woods to discuss international monetary and financial issues and to establish a global economic order in this respect. Experts from various countries in these areas attended the Conference. Having experienced the destruction caused by the Great Depression of the 1930s and the Second World War, the Conference set for itself the goal of establishing a new economic order free from economic and financial frictions among nations.

To this effect, it proposed to establish some international institutions to regulate and safeguard international commercial, monetary and financial relations. First, there was a need for a bank to provide long-term funds for reconstruction and development of the national infrastructure destroyed during the war. Thus, the **International Bank**

**for Reconstruction and Development (IBRD),** better known as the **World Bank,** was established in 1945.

The World Bank is currently the largest multi-national lending agency for development projects in the developing countries. It provides approximately $30 billion annually to the member countries in the form of loans. The main areas of interest are basic health, education, protection of the environment, social development and eradication of poverty. In this regard, its focus is now directed towards poor countries. It also aims to reform the countries' overall economies and strengthen their banking systems.

In addition to the International Bank for Reconstruction and Development (IBRD), the World Bank Group also includes the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID). The IDA gives long-term, interest-free loans to the poorest countries. The IFC provides financing for the private sector in developing countries. The MIGA gives guarantees to foreign investors against loss caused by non-commercial risks to encourage foreign investment in developing countries. MIGA also gives technical assistance to help countries disseminate information on investment opportunities. The ICSID provides facilities for the settlement of investment disputes between foreign investors and the host countries.

Secondly, the national currencies' exchange rates against each other were another main source of friction amongst nations. After quitting the gold standard, the lack of an international medium of exchange with a well-defined and commonly accepted intrinsic value created a problem in international transactions. The devaluation of a national currency to eliminate the short-term balance of payments difficulties, in particular, would result in the promotion of exports and domestic production, but at the same time, it would adversely affect the competitiveness of other economies and, as a result, the international division of labour. Such an action would induce a reaction by other countries in exactly the same manner and would destabilise the world economy. To solve this problem, the Conference proposed to create another institution that would finance short-term imbalances in international payments in order to stabilise exchange rates. Thus, the **International Monetary Fund (IMF)** was established in 1946.

The IMF reviews the economic performances of the member countries and provides financial assistance to those in balance of payments difficulties. The IMF credits are disbursed on the condition that the country in question implements the IMF prescription, generally known as Structural Adjustment Programme.

Each member country deposits a certain amount of money called quota**.** These quotas first determine the voting power of the member. Secondly, member countries may borrow up to 25 per cent of their quotas without any question, and they may further borrow on the basis of their quotas. Thirdly, the IMF lends to the member countries from that pool of quotas. The US, with 18.25 per cent, has the largest share and voting power in the IMF and has strong control over its management.

Another problem was the extensive use of tariffs and quotas in international trade. These measures were considered as the main distorting factors against the proper functioning of the world trade on the basis of comparative advantages. It was felt therefore that there was a need to eliminate these types of trade measures and to base international trade on a set of rules and regulations likely to prevent trade conflicts or trade wars amongst nations.

In 1947, in Geneva, 23 countries concluded such an agreement. The agreement included reductions in tariff rates and basic rules to govern international trade. It also involved a draft charter for the establishment of the **International Trade Organisation (ITO)**. However, the ITO could not be materialised because the United States (US) did not ratify its charter. Yet, trade rules and tariff concessions were in effect as determined by the **General Agreement on Tariffs and Trade (GATT)** which entered into force in January 1948. Since then, GATT remained the only framework governing international trade until the signing of the *'Marrakech Declaration'* in Marrakech, Morocco, on April 15, 1994, and the establishment of the **World Trade Organisation (WTO)** on January 1$^{st}$, 1995.

The WTO aims to create a freer trade environment on the global scale based upon multilaterally-agreed rules, regulations and procedures amongst nations. It also aims to achieve further liberalisation through a continuous process of multilateral trade negotiations. It has a system for settling trade disputes amongst the partners. It serves as a forum for trade talks amongst its members and monitors the trade-related national policies of the member countries.

Since its inception, the WTO concluded the First and Second Ministerial Conferences successfully to some extent but the Third one ended in a deadlock in Seattle, USA on December 3rd, 1999. The main causes of the deadlock were the divergences of opinion amongst the participating countries over launching a new round of trade negotiations and the inclusion of various subjects in its agenda. The developing countries, particularly, presented the problems caused to them by the implementation of the agreements.

In addition to the international institutions that were founded in Bretton Woods in 1944, another major international organisation, namely the **Bank for International Settlements (BIS)** operates in the field of finance.

The BIS was founded at the Hague Conference in January 1930, much earlier than the Bretton Woods Conference. Although it is not one of the Bretton Woods Institutions, it assumes an important role for the stability of the international financial system. It is a central banking institution owned by central banks. It provides a number of services to central banks. Forty-five central banks are members of the BIS.

The BIS aims to foster co-operation amongst central banks and international financial institutions. It operates as a bank for central banks providing financial services for managing their external reserves. It functions as an agent facilitating the implementation of various international financial agreements. It serves as a forum for international monetary and financial co-operation and acts as a think tank in formulating proposals for a better functioning of the international financial system. Through its various standing and ad hoc committees, including the Basle Committee, it contributes to the promotion of international financial stability. The BIS committees adopt various principles, criteria and regulations to be implemented by the central banks. In this manner, the Bank plays an important role in securing financial stability at international and individual country levels.

The BIS, together with the Bretton Woods Institutions, particularly the IMF, worked for securing the stability of the international monetary and financial system. It may assume additional roles in the reformation of the international financial architecture. First, as a think tank in the field of international finance, the BIS may develop certain ideas and design some modalities for a better functioning of the international financial system.

The international monetary and financial system established at the Bretton Woods Conference was successful in preventing economic crises in the post-war period. The IMF, in particular, being at the very heart of the international monetary system played an important role in ensuring monetary and financial stability around the globe. When one compares the post-war era with the severe damage of the Great Depression in 1929, the importance of the Bretton Woods system becomes clear. The fixed exchange rate system increased world trade and output by creating a stable economic and financial environment for the private sector investments.

However, in 1971, this system faced its first dramatic crisis when the US President Richard Nixon had to announce that the US dollar could not be exchanged for gold. Under the system of fixed exchange rates, national currencies could be exchanged against the US dollar, the common reserve money, and as a result, against each other at predetermined fixed rates. In case of major imbalances, the system would allow the necessary adjustments in these fixed rates, devaluation or revaluation. Furthermore, the value of the US dollar was fixed against a certain amount of gold. Anybody, who paid $35 to the American Federal Reserve, could get one ounce of gold. Actually, the system was, in a sense, again based on the gold standard, but in an indirect manner.

However, when the link of the US dollar to gold was broken in 1971, the system was replaced by the floating exchange rates. Under this system, the national currencies of the major economies were freely floating against each other according to the prevailing market forces that were to be determined by the economic conditions. Because of the gap or discrepancy between the real factors and the ongoing market values, the system inherits imbalances and instability, which opens the way for speculators to reap the profits of such disequilibria. Additionally, liberalisation and globalisation efforts in the 1990s resulted in a freer movement of private capital across the countries, including the developing ones. In such an environment, the 1994 Mexican crisis and more recently the 1997 Asian crisis erupted. While the Mexican crisis was less contagious and limited, the latter spread to other parts of the world, especially Russia and Brazil, and influenced the world economy very negatively. This event was rather a new one in the history of the world economy. First, unlike earlier ones, it was originating in developing countries. Second, increasing globalisation of the world economy has eased the transmission of crises across countries all over the world. Furthermore, the Asian crisis and its contagious effects have shown that private capital flows have become so large that the financial resources of individual governments and international institutions like the IMF may not suffice to control the speculative moves of the private capital. In fact, it was, in general, accepted that there was a need to reform the international financial system.

## 3. REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE

### 3.1. International Capital Movements

The countries in South East Asia were the most successful amongst the developing countries over decades. They realised fast growth rates and established a strong industrial base in the region. After such a prolonged growth, these economies were called the Asian Tigers. One of the most important causes of such a long standing and strong growth and development in South East Asian Countries lies in the major shift realised in their foreign trade policies in the late 1960s. In those years, while most developing countries were continuing to strengthen their trade policies based on import substitution, the countries in the region adopted policies of export promotion. Of course, such a policy aims at a specialisation of countries according to their comparative advantages and requires implementation of liberal policies, particularly in the fields of foreign trade and capital sectors.

As a result, the countries in South East Asia ranked amongst the fastest growing as well as the most open economies in the developing world. In this growth pattern, foreign capital inflows, particularly in the form of foreign direct investment, have become quite a determining factor. Foreign direct investment has indeed multiple benefits such as increased investment, accelerated economic growth, transfer of technology, and better and easier access to the markets of the other countries through vertical integration of the transnational corporations.

On the other hand, globalisation and liberalisation efforts on the world scale in recent years increased the tendency of these countries to open their domestic markets to outside capital. Because of their reputation as Asian Tigers and their successful economic records, South East Asian Countries were, once again, the focus of international private capital flows. This time, however, these flows were rather in the form of portfolio investment coming to reap speculative profits on a short-term basis on the stock exchange markets in these countries. Additionally, because of the fast-growing business environment in the region, excess demand for money was met from readily available foreign sources in the form of bank loans. Such an environment caused over-dependence on foreign capital sources and increased the share of short-term capital, particularly the speculative portfolio investment, in foreign liabilities of these countries. Economies in the region became overheated by foreign capital, and abundance of funds available in the economy resulted in increases in property prices. In other words, available funds were invested for speculative purposes in non-productive areas instead of capacity-building productive industries. As a result, the economies of the countries in the region became vulnerable and open to speculative attacks. Actually, huge volumes of short-term and speculative foreign funds were the main reason for the monetary and financial crisis and the following social and economic turmoil in the region and elsewhere.

Due to globalisation and liberalisation efforts on the world scale, the economies of the developing countries are becoming increasingly integrated into the world economy. In most of the emerging markets, foreign exchange regimes have been liberalised and controls over capital movements, including equity participation and portfolio investment, have been removed to attract foreign funds. Particularly in stock exchanges, foreign investors do not have any ceilings in their equity investments. Many OIC countries also followed suit, as seen in Table 1. As a result, in addition to the conventional relations in the fields of international trade and foreign direct investment, international trade in services and short-term capital movements, particularly in the form of portfolio investment in emerging markets, have become increasingly important in recent years. Furthermore, it is also a commonly known theoretical fact that the yield of capital in developing countries is, in any case, relatively higher than that in the developed countries since capital is relatively scarce as compared to labour. Stimulated by this fact, foreign capital in different forms seeks more profitable geographical areas and economic sectors on the world scale. So, in the wake of the opening-up of the markets in developing countries, such capital movements increased. "Over the period 1990-1996, the cumulative value of portfolio investment to emerging markets was roughly equal to the cumulative value of foreign direct investment (FDI), reaching around $410 billion and representing about 40 per cent of total private capital flows. … Between 1987 and 1996, emerging stock market capitalisation grew by nearly 600 per cent and its share of world market capitalisation increased from nearly 4 per cent in 1987 to 11 per cent in 1996." (UNCTAD, 1998, p.2).

**Table 1: Foreign Investment Ceiling for Listed Stocks in Emerging Markets**

Markets covered by IFC indexes, end 1998

| | |
|---|---|
| Bangladesh | 100% in general |
| Egypt | 100% in general |
| Indonesia | 100% in general; 49% banks, 85% for securities companies |
| Jordan | 100% in general; 50% for construction, retail trade, and mining sectors |
| Malaysia | 100% in general |
| Morocco | 100% in general |
| Nigeria | 100% in general |
| Pakistan | 100% in general |
| Saudi Arabia | 25% for GCC, otherwise closed for portfolio investors |
| Tunisia | 49.9 % in general |
| Turkey | 100% in general |

Source: International Finance Corporation, *Emerging Stock Markets Factbook 1999*, Washington, D.C., April 1999, p.372.

Because of the severe problems created by free foreign capital movements, an increasing number of economists support the idea of capital controls, particularly in developing countries. In most developing countries, due to improvements in capital markets and developments in banking, financing and communications technologies, the buying and selling of financial instruments such as government bonds, securities, private sector bonds, common stocks, etc., were facilitated on the second hand markets. Even selling of financial securities, exchanging into internationally-accepted money and transferring to another country have become much easier than withdrawing one's money from one's bank account. Of course, in normal times, such an occurrence does not hurt anybody; it will be registered as a simple international transaction. However, during a period of panic, it matters. Within an economy, there are always instruments developed to secure the stability of the banking system and capital markets such as reserve requirements, liquidity ratios, deposit insurance, government guarantees on deposits for the banking sector, clearing and settlement banks or centres for securities or stock exchanges, central securities depositories, custody banks, etc. Similar instruments are also needed at the global level.

Furthermore, portfolio investment and equity capital are regarded as long-term activities within the framework of a balance of payments approach[1]. However, as it was examined above, they have become short-term movements, particularly in crisis periods. For that reason, developing countries, particularly their central banks or monetary authorities should closely and cautiously follow up and monitor the stocks and flows of those kinds of foreign capital transactions. This way, they may have a better idea about their foreign liabilities and be prepared for emergency cases.

At the international level, the balance of payments classification as stipulated in the IMF's Balance of Payments Manual will be reviewed and amended accordingly to reflect the changing nature of portfolio investment and equity capital transactions. That is, they will be classified under short-term capital.

## 3.2. Exchange Rate Regimes

The role of the speculative and risky nature of short-term foreign capital movements in the Asian crisis is essential. However, another factor to be cited in this context is the role of exchange rate regimes. Linking national currencies to the US dollar excludes currency risks temporarily from the decisions of the economic agents, including foreign investors and creditors. However, it is also very well known that there are also

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[1] "Long-term capital is defined as capital with an original contractual maturity of more than one year, or **with no stated maturity** (e.g., corporate equities). Short-term capital is capital payable on demand or with an original contractual maturity of one year or less and includes currency. … **Portfolio investment**, by definition, consists entirely of long-term capital, since it comprises long-term bonds and corporate equities, the latter being classified as long term because they have no stated maturity." (IMF, 1977, p.128-129).

some other economic agents that earn money through currency operations such as arbitrage, etc., on the international currency markets. Such agents are ready to exploit any disequilibria in currency markets.

In the 1980s, when the US dollar was depreciating against the major currencies of the other industrial powers, particularly the Japanese yen, competitiveness of the Asian Tigers increased and their exports and assets became cheaper as compared to those of Japan. This acted as a continuous devaluation policy for the export products of the countries in the region and promoted industries and economic activities as well.

However, in the 1990s, things changed: the US dollar started to appreciate against the major international currencies, including the Japanese yen. The monetary authorities, particularly the Central Banks in the Asian countries, failed to adjust their national currencies' parities to secure the competitiveness of the export industries in the region. So, as a result, overvaluation of national currencies in parallel to the appreciating dollar eroded the competitiveness of the export industries. Export products and national assets became expensive. Declining exports and costly assets in the region resulted in increases in the current account deficits, and the need for short-term capital inflows increased. These deteriorating conditions in the region, particularly in Thailand, together with the pegged exchange rates, were pointing to a speculative attack in the currency and financial markets. Then, a sudden wave of selling shares, converting to the US dollar and transferring to foreign bank accounts resulted in the collapse of stock and foreign exchange markets in Thailand. With the Thai example in their mind, portfolio and currency speculators then turned to the other countries in the region.

In fact, fixed or pegged exchange rate regimes are among the basic tools available to currency authorities to secure economic stability in a country. Yet, this instrument must be used very carefully. Changes in the value of the national currency vis-à-vis the major foreign exchanges must be followed closely. Exchange rate policy must aim to stabilise the real effective exchange rates in order to keep up the competitiveness of the country.

Especially during the Asian crisis, some economists directly blamed the pegged or fixed exchange rate systems as the cause of the crisis. Additionally, developing countries were advised not to use such regimes. Instead, they were to allow their national currencies to float freely or to replace their currencies with one of the major international currencies, like the US dollar or the Euro, etc.

These alternative exchange rate regimes have their own pros and cons. Under the regime of freely floating exchange rates, the system is open to seasonal fluctuations, which may generate instability in the economy. However, these fluctuations will be minor as compared to a currency crisis like the Asian one. On the other hand, in the case of adopting a major currency as the national one, such as full ‘dollarisation’ or ‘eurosation,’ the government or the monetary authority of the country will certainly lose every control over the currency. In such a case, exchange rate policies cannot be developed according to the needs of the economy, trade and competitiveness.

On the other hand, fixed or pegged exchange rate systems in developing countries should be managed with caution, taking into consideration the underlying economic fundamentals. Such a system, in fact, does not allow deficits in government and external sectors; in other words, it excludes any structural imbalances. Fixed or pegged exchange rates, supported by a sufficient level of foreign exchange reserves, are still being used for attaining various macroeconomic goals, like curbing inflation or protecting stability. Even the IMF is recently supporting a three-year stabilisation programme in Turkey initiated at the end of 1999 which is based on “the designation of the exchange rate as an anchor in the fight against inflation” (Işık, 2000, p.9). Such a controlled, fixed or pegged exchange rate may serve the development aspirations of the developing countries.

However, in the absence of exchange rate stability in major developed countries and in view of the resulting currency crises, like the 1992/93 crisis in the European countries, it will be hard for the developing countries to attain exchange rate stability. In principle, disturbances in currency markets of the developing countries stay local and the country in crisis pays the cost of the crisis. They do not have strong contagious effects on other countries or regions. Since they are, by definition, small economies and their national currencies are not being used as reserve money by other countries, the impact of a crisis originating from such developing countries on the world economy will be limited or negligible. The sole exception in this context is the Asian crisis that was also triggered by huge volumes of fleeing foreign capital, speculative in nature. Instability in the major currencies or crises in the major developed countries have more direct and adverse effects on the world economy because other countries use them as reserve money. These latter countries also have to pay the cost of any crisis that occurs as a result of macroeconomic imbalances in these major countries, i.e., budget deficit or trade deficit, etc. For this reason, securing the stability of major reserve currencies with respect to each other, mainly the US dollar, the Japanese yen and the Euro, becomes vital for strengthening and securing the smooth functioning of the international monetary and financial architecture. In the absence of exchange rate stability in major currencies, it is quite odd to discuss the exchange rate stability of the currencies of the developing or the newly industrialising countries.

### 3.3. Standards, Transparency and Financial Supervision

Speculation and even manipulation in capital markets are facts. Speculators earn money from the mistakes of individuals who do not have full information or misinterpret the current market situation or who are forced or manipulated to react wrongly. It must not be forgotten that in order to realise a transaction, there must be two sides: a buyer and a seller, or, in other words, for everyone who earns money there must be a loser. Particularly in crisis periods, when everybody rushes to sell their shares, there are buyers ready to collect all these shares. By definition, if there is nobody to buy shares or any commodity, in other words, if there is no transaction, there will not be any price quotation. So, even in collapsing markets, some people must be earning or will be earning in the future.

The underlying factor behind this very basic phenomenon is the lack of full information on the markets. Otherwise, everybody would behave in the same manner. The role of this factor was also observed in the Asian crisis. While some people were selling in stock exchange markets in panic, some others continued to collect them.

In fact, if not full information, better information is crucial for the better functioning of financial markets. Of course, this could be acquired through improved standards and greater transparency.

In addition to the increased transparency in capital markets, more frequent and comprehensive information relating to the balance of payments positions, capital movements, particularly of short-term, foreign debts, exchange rate regimes, international foreign exchange reserves, etc., must be publicised. Furthermore, dissemination of information should be made according to a set of internationally agreed standards and accounting procedures and practices. Moreover, national institutions may reflect these in their domestic practices and procedures in order to improve the functioning of their monetary and financial sector.

In this regard, the IMF, the BIS and other relevant international organisations have already assumed responsibility in developing and setting international monetary and financial standards in a number of areas. These include disclosure and dissemination of data, transparency of fiscal, monetary and financial policies, banking regulations and supervision, securities and insurance regulations, accounting, auditing and bankruptcy, corporate governance, etc. For example, the IMF developed the Special Data Dissemination Standard, the Code of Good Practices on Transparency in Monetary and Financial Policies, and the Code of Good Practices on Fiscal Transparency (see Annex 1 for a wider list of major international standards in the fields of economic policy, banking, securities, insurance and corporate governance).

The Basle Committee on Banking Supervision developed guidelines and principles for the banking and financial sector. For example, the Basle Capital Accord determines how much capital banks must put aside against their assets. Additionally, the Committee determined the Core Principles for Effective Banking Supervision which lists 25 principles of effective supervision of the banking sector by public authorities (Basle Committee, 1998), Sound Practices for Banks' Interactions with Highly Leveraged Institutions (HLI), and the Supervision of Cross-Border Banking. Furthermore, the Basle Committee also provides help to the countries in implementation of these criteria and principles (IMF, 1998, Box.1).

The International Organisation for Securities Commission (IOSCO) developed standard principles for the securities market regulations to improve their functioning, including a Supervisory Framework for Markets, and Objectives and Principles of Securities Regulation.

For the insurance industry, the International Association of Insurance Supervisors (IAIS) determined certain principles in the field, namely the Insurance Supervisory Principles (Core Principles).

On the other hand, in order to follow up the implementation efforts regarding standardisation, a Task Force on Implementation of Standards was established in October 1999 by the Financial Stability Forum[2] (FSF). The FSF also prepares a Compendium of Standards which provides a common reference for various internationally accepted guidelines, principles and practices that will strengthen the international monetary and financial system. Furthermore, the IMF established a reporting mechanism within the framework of *Reports on Observance of Standards and Codes (ROSCs)*. These reports summarise the compliance of countries with the international codes and standards.

These efforts to develop international standards were also supported by the leaders of the various country groups such as the G-7 or G-8, the G-15, the G-20, APEC, ASEAN, etc. For example, the G-7 Finance Ministers and Central Bank Governors, meeting in Washington, D.C., on 26 April 1999, in their official statement, “encouraged the Basle Committee on Banking Supervision to finalise quickly and publish its work on reviewing the Basle Capital Accord”, (G-7, 1999). But still a lot can be done by the international community to encourage ongoing activities in the field of standardisation and transparency for monetary, banking and financial principles, procedures and practices.

On the other hand, the IMF is the leading agency in developing and disseminating international standards and rules of transparency to be followed. However, some writers also argue for the transparency of the IMF itself. For example, Akyüz states: “However, there are difficulties in attaining full transparency of the IMF since governments often find objectionable the disclosure of confidential information they provide to the Fund. Moreover, owing to the political sensitivities involved as well as the questions regarding its track record in macroeconomic and financial diagnosis, temptations to turn the Fund into a fully-fledged credit-rating agency are rightly resisted. Within these limits, however, there is scope to improve the transparency of the IMF”(Akyüz, 2000, pp.5-6).

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[2] The Forum was created in February 1999 by finance ministers and central bank governors of the Group of Seven industrial countries. It aims to promote international financial stability through greater information exchange and co-operation in financial market supervision and surveillance. Its members include senior officials from finance ministries, central banks, and supervisory authorities in the G7 countries, senior officials from Australia, Hong Kong, the Netherlands, and Singapore, as well as representatives from the international financial institutions.

Full information is the most basic assumption of economic theory and analysis. Of course, economists also know that economic life does not comply with this very basic assumption. Due to the lack of full information, markets operate at levels far from being efficient. However, efforts should be made to approach those efficient levels as much as possible.

Economic efficiency needs full information, i.e., complete and reliable information. However, this fact should also be supported by open and transparent policies and effective regulatory institutions, both at country and international levels. Inadequate and blurred information creates a panicky environment in the financial markets and invites speculators to act. Implementation of standards and transparency of policies can help reduce the vulnerability of the international financial system and may generate stability and a stronger financial environment around the globe.

### 3.4. Contingency Financing

One of the most important observations about the 1997 Asian crisis and its contagion is that the IMF was not able to respond properly and early enough to take it under control on time. Furthermore, it was not prepared for such a crisis and was too slow to diagnose it, to propose the necessary prescription and to raise adequate funds to cure it. In short, from the standpoint of crisis management, the IMF failed in the 1997 crisis.

With these facts and the destructive effects of the Asian crisis in mind, a consensus was reached that a new emergency facility, preferably within the IMF, must be created to provide funds to those countries experiencing payment difficulties related to capital account. Actually, in August 1988, a *Compensatory and Contingency Financing Facility* had been established within the IMF to compensate members with shortfalls in export earnings because of circumstances beyond their control and to help maintain adjustment programmes in the face of external shocks. Yet, that facility was limited to current account difficulties. This new mechanism, contingency financing, will be provided in case of problems arising from capital account.

Management of liquidity in the case of a company and management of international liquidity in the case of a country are very important for a healthy and smooth functioning of the institution or the state. Especially, in the case of a country, mismanagement of international liquidity has further direct and indirect adverse effects on other countries and vice versa. For this reason, management of international liquidity may be regarded as a common problem of the international community from the viewpoint of healthy and smooth functioning of the international monetary and financial system.

During the crisis, it was well understood that IMF funds were inadequate to prevent and manage such an international crisis. First, the IMF is not a bank and it has limited funds. In case of balance of payments problems, a country approaches the IMF for a small volume of "green light" financing, not to borrow all the money it needs. Here, the expectation is that with this "green light" in the pocket, a country may borrow from international banks. Consequently, funds are made available at intervals and the solution is, indeed, a long-term one. Actually, such a modality is very much against the idea of crisis management. The corollary here is that there is a need for an international body, a "lender of last resort", to provide adequate funds on time and in abundance to prevent crisis and lessen its adverse effects on the global economy.

However, the idea of establishing an international "lender of last resort", in other words, "a world central bank", is rather challenging. Actually, it means the surrender of monetary independence and the loss of national monetary control and policy as an instrument for economic development. For the time being, countries are not willing to accept such a major change. Nevertheless, efforts are being made to improve the IMF operations and to provide more funds by increasing member countries' "quotas".

Furthermore, a new mechanism is proposed to meet urgent demand for financing coming from countries experiencing capital account problems, particularly those of a short-term nature. This mechanism will be open to those countries that may encounter capital outflows despite the fact that they do not have any structural imbalances or major economic problems. In order to make use of such a facility, a pre-qualification mechanism is proposed. Countries that meet certain criteria would be eligible for this facility. On the other hand, eligibility would be examined during Article IV consultations. Once a country is qualified, it can easily gain access to contingency financing in case of urgent need. These funds will be made available at much shorter terms and higher interest rates as compared to other IMF financing facilities. The pre-qualification criteria include economic, monetary and financial indicators such as current account positions, the ratio of short-term debt to international reserves, and the ratio of short-term capital and portfolio investments to foreign exchange earnings or GDP, etc.

The contingency financing facility makes large sums of funds available to countries following good policies. However, since the effectiveness of this facility depends on the availability of sufficient funds at hand, the IMF resources should be increased to meet a sudden shift in demand for excess funds during a crisis period. The IMF will be authorised to borrow directly from financial markets. Furthermore, it may have access to official funds in order to co-ordinate the availability of sufficient funds for this facility. Additionally, the IMF's own resources in the form of "quotas" will be enlarged.

Such a mechanism is an improvement over the main stream of IMF activities. The IMF basically addresses the problems of countries when they become chronic and acute. Or in other words, until now, the Fund would be activated at the bottom of a crisis. A country, in general, would apply to the IMF after attempting all possible remedies. Then, there come the very painstaking negotiations of the IMF conditionality which also take time and at the end mostly causes social unrest. Because of these problems and the delays in raising funds, the contingency lending facility is indeed an improvement for a better management of international crises and contagions.

The G-7 countries support this idea mainly because this facility is open only to those countries pre-qualified for it. In other words, especially the developing countries, with their already unsatisfactory economic and financial records, will not be eligible for this type of emergency lending.

However, such a facility must aim to assist not only the countries already experiencing a crisis or some sort of contagion, but also others that may fall into a similar situation in the future. In other words, contingency lending must be considered as a preventive instrument in case of a contagious economic and financial crisis. In this context, it should be open to the countries that may be affected indirectly by an ongoing crisis through trade links, exchange rate devaluation or falls in commodity prices, particularly the developing countries. Furthermore, this facility should be made available urgently without any delay and sufficiently early to control the contagious effects of a crisis.

### 3.5. Greater Participation of Private Sector in the Prevention and Resolution of Financial Crises

Private financial institutions, i.e., banks, etc., extend credits to the developing countries. They finance or partially finance public or private sector projects after evaluating the feasibility and/or profitability of the projects in question. In the light of their own appraisal, they either accept to finance a project or reject it. Based on this evaluation and other risks involved for a country, such as political and exchange risks, etc., they determine an interest rate for that project. Banks or financial institutions, in general, levy higher rates of interest for developing countries, considering that these risks are more likely to occur in them. In other words, political, economic, financial or monetary risks are, in fact, embedded in the interest rate. When crises occur, these risks are materialised. In such cases, banks and financial institutions put an end to their financing operations in these countries and try to find out ways to get back their loans. However, this attitude only serves to deepen the crisis.

Regarding the causes of the 1997 Asian crisis, some critics accused the banks and financial institutions of not having made a proper appraisal of the projects and of having taken imprudent decisions regarding their investments in the South East Asian countries. Instead of financing profitable and productive projects, they extended credits for unproductive projects like property development, etc.

Based on such considerations, some experts argued that the private sector must be involved in the prevention and resolution of financial crises. When a country faces a financial crisis due to its heavy external borrowing and requires large-scale financing to continue its economic activities, the private sector must contribute to the resolution of its financial difficulties. In general, such a contribution needs, first, rescheduling of the country’s debts and, later, extension of fresh credits to overcome its financial difficulties. In most cases, financial institutions are reluctant to restructure the foreign debts of a country in such a situation. For this reason, a forced rescheduling is being proposed in such instances.

In principle, most specialists agree that the private sector should assume a responsibility in this regard and share the burden together with the debtor countries and international financial institutions. However, they disagree with the use of involuntary mechanisms such as forced restructuring of external debts. They argue that such instruments will drive banks and financial institutions away from the developing countries. As a result, the need of developing countries for foreign financing will increase enormously and obviously, they will be obliged to pay higher interest rates for their capital needs which are indispensable for their development projects.

Some are even against any kind of rescue or bailout operations in the case of a financial crisis. They argue that such mechanisms will encourage investors and bankers to take imprudent lending decisions thinking that others will share the involved risks as well. So, rescuing foreign creditors and investors may further encourage similar financial flows in the future. Furthermore, any bailout operation means rewarding the private sector and punishing the public sector, since it will result in conversion of the risks created in the private sector into the government sector. In other words, the burden is entirely transferred on debtors.

Of course, the obligation for companies or countries to meet their debts in full and on time is the very first rule for the basic functioning of the international financial sector. Otherwise, private investment and financial flows that are a prerequisite for the growth and development of the developing countries will decrease and may even disappear.

On the supply side, on the other hand, creditors and investors should assume their responsibility and face the consequences of their decisions. They should know that some of the debts will not be paid in full or on time, and high interest rates on such credits are paid exactly for that reason.

These two conflicting positions of the creditors and debtors make any improvement regarding the role of the private sector in the prevention and resolution of crises very difficult. In this context, the US proposes to take up the default problems on a case-by-case basis as it is being done presently between the creditors and debtors of the Paris Club, for instance. On the other hand, some other G-7 countries, particularly Britain and Canada, propose to establish a rule-based system involving the private sector in crisis management. The basic idea in this approach relies on the consideration that the private sector should also share the burden of adjustment during the period of crisis in order to prevent any contagious effects. Although the idea is quite simple, because of the considerations summarised above, how this role will be reflected onto the private sector for a given case is extremely complicated. Even today, in the rescheduling processes within the framework of the Paris or London Clubs, parties take a lot of time to reach an agreement. So, it means that voluntary mechanisms based on a case-by-case approach will not be helpful during crisis periods. Actually, this time problem during the negotiating process for restructuring the debt obligations of a country is the very basic reason why a mandatory mechanism based on a set of pre-determined rules and procedures should be created at the international level.

In this context, the UNCTAD also proposed the application of procedures of orderly debt workouts that allow an automatic standstill on debt servicing. That is, a country will have the right to declare a unilateral standstill when it faces a currency or financial problem. Related conditions and rules to activate this standstill mechanism should be included in the international financial contracts as a safeguard clause. Such a mechanism may relieve the countries temporarily from the surrounding financial pressures.

Developing countries are, in general, in favour of establishing a mandatory mechanism, such as the one proposed by UNCTAD, to be resorted to in case of a financial crisis. However, at the same time, they fear that such arrangements may create unwillingness on the part of banks or financial institutions, and as a result, they may find difficulties in accessing international financial markets.

## 4. IMPLICATIONS FOR THE OIC COUNTRIES

As we have discussed in detail in the second section, the present international financial system and its basic institutions responsible for the proper functioning of the whole system have been founded in Bretton Woods in 1944. The system worked without many problems until the 1971 crisis when the basic fixed exchange rate system collapsed. Since then, the international financial system has seen various monetary and financial crises, and instability in international markets has become one of the basic characteristics of the world economy.

After the collapse of the Bretton Woods system in 1971, two exchange rate systems were used side by side in the world: the floating exchange rate regime and the fixed or pegged –a slightly modified version of the fixed one– exchange rate regime. The pros and cons of these two exchange rate regimes have been discussed earlier. However, the basic corollary is that the stability of any exchange rate system, whether fixed or floating, should be supported by sound and rational economic and financial policies. Otherwise, both of them would cause a dramatic crisis eventually.

On the other hand, the past decade saw tremendous technological developments in the fields of electronics and telecommunications. These technological improvements have been widely utilised in the financial sector. Once very problematic, money transfers between countries have become a very simple keyboard function. In line with these developments, money looked for new areas to reap profits. Meanwhile, it discovered the emerging markets, some of which were in the OIC countries. In the sub-section on international capital movements, the impact of capital flows, particularly in the form of short-term capital and portfolio investment, on the economies of the emerging countries was examined in detail. In particular, it cannot be denied that short-term capital played a negative role during the 1997 Asian crisis and its contagious effects. Actually, in the literature, one may find various ideas about the relationship between the causes and effects of the Asian crisis. Some of these opinions are even conflicting with each other, but there is a very strong consensus on one of these views, which is the triggering effect of short-term capital movements in starting up the crisis.

Because there is no control over capital movements, the free and easy transfer of capital between countries increases the risk of similar crises around the globe. At present, the international financial system lacks instruments similar to those developed within an economy to secure the stability of the banking system and financial markets such as reserve requirements, liquidity ratios, deposit insurance, etc. Similar control mechanisms should also be used at the international level through international financial institutions. Developing countries and the OIC countries must work in unison to realise the establishment of such a control and surveillance mechanism at the international level, preferably as a new international institution.

Of course, there is also the possibility of generating domestic policies to regulate and control capital movements. Each country has the right to do so. However, in that case, the developing countries in particular may have to give up the idea of making use of foreign capital in their development efforts and projects. Considering the vital importance of foreign capital in closing the gap between their investment needs and domestic savings, such a policy proposal for the developing as well as the OIC countries cannot be wise. The setting up of domestic control and surveillance mechanisms will definitely create different practices amongst the developing countries and the OIC countries, since their economies are heterogeneous and they are presently at different levels of growth and development. Furthermore, foreign capital will apply differential treatment and discrimination amongst the developing countries, which will, in turn, create further divisions amongst them with respect to their interests relating to foreign capital.

Amongst the proposals related to reforming the international financial architecture, a consensus was reached on the need for creating a new contingency financing facility to be used in case of problems arising from capital account transactions. During the 1997 Asian crisis, it was clearly understood that the IMF was quite slow and inadequate in responding to such a voluminous currency and financial crisis, although it was the very basic guardian of the Bretton Woods system. It had many facilities tailored beforehand to be activated in case of a problem. Although it had an already established contingency financing facility, it could not be made operational in the case of the Asian Crisis because it was designed for current account difficulties. It did not have an adequate mechanism to stop a crisis due to capital movements. Actually, with its poor performance during the Asian crisis, the IMF has become the object of care, although it should be the provider of care.

The IMF funds must be increased to enable it to intervene quickly and adequately in case of a currency and financial crisis. The IMF should closely follow and monitor international capital movements, particularly short-term capital movements and speculative portfolio investments. Furthermore, based upon this information, it may also develop an early warning system regarding speculative capital movements and try to prevent the depletion of foreign exchange reserves of a country under speculative attack by extending contingency financing in time. Here, the time element is very important because the present fast mobility of money through banking systems equipped with the e-technology increases the intensity of the speculative attack at every second.

On the other hand, ideas like establishing an international "lender of last resort" or full 'dollarisation' of the economies may be detrimental to the developing countries. These proposals mean the surrender of monetary independence and the loss of national monetary control and policy as an instrument of economic development. These devices may create stable economies around the globe. Stability is an important concept for the smooth and healthy functioning of the economies. However, for the developing countries, achieving high growth rates, reaching higher levels of development, eradicating poverty and improving the living standards of their people are also equally important goals. For this reason, developing and OIC countries should not accept such proposals as may result in the loss of instruments to induce or accelerate their economic growth and development. Otherwise, while they are trying to establish economic stability, they are likely to lose social and/or political stability, which are, in turn, essential for achieving economic stability.

However, at regional levels, the ideas of "lender of last resort" and of creating a common currency can be gauged by looking at how they are faring amongst countries which have already established a regional integration scheme. After achieving a higher stage of harmonisation of their economies through preferential tariff arrangements, customs union, and adoption of common economic, monetary and financial policies, countries in regional economic groupings may further extend their co-operation by establishing a central bank and launching a common currency.

In this context, the efforts of the European countries to issue a common currency, the "Euro", and establish the European Central Bank (ECB) will be cited as an important example. Furthermore, the West African OIC countries, within the framework of the West African Economic and Monetary Union (WAEMU)[3], have already been

[3] Its members are **Benin**, **Burkina Faso**, Ivory Coast, **Mali**, **Niger**, **Senegal**, and **Togo** (OIC countries are in bold).

practising their common currency the “CFA franc” which is issued by the Banque Centrale des Etats de l’Afrique de l’Ouest (BCEAO).

Regional monetary and financial arrangements among developing countries such as exchange rate agreements, clearing arrangements, harmonisation of monetary and financial policies, single currency, regional central banks, monetary unions, etc., are useful monetary and financial devices to achieve greater stability in a region. Furthermore, such arrangements will help avoid exchange rate and currency problems likely to arise because of shortages of foreign exchange reserves. This way, member countries may easily bypass the difficulties of not having an international reserve currency.

On the other hand, in recent years, regionalisation efforts have been increased very widely amongst the developed countries. Anybody comparing the activities and efforts of the member countries of the European Union (EU) between the 1980s and the 1990s would easily notice the intensity and the strong momentum in this respect.

Here, we may cite the formal establishment of the European Union as a social, economic and political union in November 1993. Furthermore, in the same year, the Maastricht Treaty went into effect aiming to establish a monetary union. Austria, Finland and Sweden became members of the EU in 1995. Especially after the collapse of the former Soviet Union, the EU members further concentrated their efforts on enlarging the Union towards central and east European countries.

Similar developments were also being observed in the North America region within the framework of the North American Free Trade Agreement (NAFTA). In addition to the efforts to increase co-operation amongst the member countries, activities to create a larger free trade area including Latin American countries were recently increased.

These facts hold useful lessons for the OIC countries. Individual efforts may not suffice to confront the challenges of today’s world economy. Closing the gates is not a solution at all. Recent history showed that autarkic economies were not able to keep up with the main stream of the world economy. So, countries must be open to international competition but, at the same time, they must find ways and means to increase their competitiveness and assume a brighter role within the global economy. One basic solution in this direction is to seize the opportunities of increased economies of scale which could be generated in a regional economic grouping.

## 5. CONCLUSION

The international monetary and financial architecture is the core of the problem. It is the most globalised part of the whole world economy. The global financial system has become very responsive to the changing conditions in the financial environment. It is a full-fledged and deeply integrated system like the human body. Of course, such a system should have proper emergency valves and other instruments to react swiftly and strongly enough to cope with any crisis. The new international financial architecture must, therefore, comprise a combination of various aspects of international liquidity management; standardisation, transparency and financial supervision; consistent macroeconomic and financial policies at the national and international levels and strengthening the international financial institutions. Measures like contingency financing are also essential to the prevention and management of financial crises. Furthermore, the international community must also find ways and means to solve the outstanding debt issues, and fresh funds must be made available to meet the financing needs of the developing countries.

It should be emphasised again that portfolio investment and equity capital are considered as long-term activities within the framework of balance of payments classification. However, as it was examined above, they have become short-term movements particularly in crisis periods because of the technological developments. Necessary adjustments must be made in the balance of payments classification to reflect the changing nature of the portfolio investment and equity capital transactions. That is, they must be classified under short-term capital.

Furthermore, the central banks or the monetary authorities of the developing and OIC countries should closely and cautiously follow up and monitor the stocks and flows of those kinds of foreign capital transactions. This way, they may have a better idea about their foreign liabilities and be prepared for emergency cases.

In the longer term, the international financial architecture needs definitely to be fundamentally reformed. Actually, there is now a broad consensus on reforming it. Consensus has been reached almost exclusively on the idea of the need for a reformation. Yet, many important issues still need to be discussed and resolved by the international community. The international community must prepare a common agenda for the reform process of the international financial system based on the prevailing discussions and proposals. This agenda must be undertaken by an international conference as was done in Bretton Woods in 1944. Furthermore, a broad participation and adequate representation of all countries are needed. In this regard, the United Nations may serve as a forum during the negotiations for a new international financial architecture, since it is the most democratic and universal forum of all the countries.

The OIC countries, on the other hand, must be prepared to participate effectively in the discussions to reform and strengthen the international financial system. They should also work with other developing countries to determine the policies that can best reap the benefits of the new international financial architecture, while eliminating potential risks and uncertainties.

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## ANNEX

## MAJOR INTERNATIONAL STANDARDS LISTED

**International Monetary Fund**
Code of Good Practices on Transparency in Monetary and Financial Policies.
Code of Good Practices on Fiscal Transparency.
General Data Dissemination System.
Special Data Dissemination Standard.

**Basle Committee on Banking Supervision**
Basle Capital Accord.
Core Principles for Effective Banking Supervision.
Sound Practices for Banks' Interactions with Highly Leveraged Institutions.
The Supervision of Cross-Border Banking.
Principles for the Supervision of Banks' Foreign Establishments (the Basle Concordat).

**International Organisation of Securities Commissions**
Supervisory Framework for Markets.
Objectives and Principles of Securities Regulation.

**International Association of Insurance Supervisors**
Insurance Supervisory Principles (Core Principles).

**Organisation for Economic Co-operation and Development**
Principles of Corporate Governance.