GLOBALIZATION AND THE INTERNATIONAL FINANCIAL SYSTEM

Economic globalization has given rise to frequent and severe financial crises in emerging market economies. Many other countries have been unsuccessful in their efforts to generate economic growth and reduce poverty. This book provides perspectives on various aspects of the international financial system that contribute to financial crises and growth failures, and it discusses the remedies that economists have suggested for addressing the underlying problems. It also sheds light on a central feature of the international financial system that remains mysterious to many economists and most noneconomists: the activities of the International Monetary Fund and the factors that influence its effectiveness. Drawing on the views and proposals of leading scholars, Dr. Isard offers policy perspectives on what countries can do to reduce their vulnerabilities to financial crises and growth failures, as well as a number of general directions for systemic reform. The breadth of the agenda provides grounds for optimism that the international financial system can be strengthened considerably without revolutionary change.

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to my father, Walter Isard,

who inspired me to study economics

and strongly encouraged me to write this book
Globalization and the International Financial System

WHAT’S WRONG AND WHAT CAN BE DONE

Peter Isard

International Monetary Fund
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<tbody>
<tr>
<td>CCL</td>
<td>Contingent Credit Line</td>
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<td>CFF</td>
<td>Compensatory Finance Facility</td>
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<td>EC</td>
<td>European Community</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<td>EFF</td>
<td>Extended Fund Facility</td>
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<td>EMS</td>
<td>European Monetary System</td>
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<td>EMU</td>
<td>European Economic and Monetary Union</td>
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<td>ERM</td>
<td>Exchange Rate Mechanism</td>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>foreign direct investment</td>
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<td>FSA</td>
<td>financial sector assessment</td>
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<td>FSAP</td>
<td>Financial Sector Assessment Program</td>
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<td>Financial Stability Forum</td>
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<td>G-24</td>
<td>Group of Twenty-Four</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GDDS</td>
<td>General Data Dissemination System</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<tr>
<td>HIPC</td>
<td>heavily indebted poor country</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IMFC</td>
<td>International Monetary and Financial Committee</td>
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<tr>
<td>ITO</td>
<td>International Trade Organization</td>
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<tr>
<td>LIBOR</td>
<td>London interbank offer rate</td>
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<td>LOLR</td>
<td>lender of last resort</td>
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<td>LTMF</td>
<td>Long-Term Capital Management</td>
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<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<tr>
<td>NDA</td>
<td>net domestic assets</td>
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List of Abbreviations

NGO  nongovernmental organization
NIPA  national income and product accounts
ODA  official development assistance
OECD  Organization for Economic Cooperation and Development
OPEC  Organization of Petroleum Exporting Countries
PPP  purchasing power parity
PRSP  Poverty-Reduction Strategy Paper
ROSC  Report on the Observance of Standards and Codes
SAF  Structural Adjustment Facility
SBA  stand-by arrangement
SDDS  Special Data Dissemination Standard
SDR  special drawing right
SDRM  Sovereign Debt-Restructuring Mechanism
SRF  Supplemental Reserve Facility
UDROP  Universal Debt Rollover Option with a Penalty
WEO  World Economic Outlook
WTO  World Trade Organization
Acknowledgments and Disclaimer

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The analysis and opinions in this book are those of the author and, unless otherwise indicated, do not necessarily reflect the views of the IMF or others on its staff. The manuscript was submitted in October 2003; data have been updated through the end of 2003 or early 2004, but the book includes only a few references to material that has become available since October 2003. I have made considerable efforts to avoid factual errors and to provide balanced perspectives on the issues addressed, but the nature of the undertaking suggests that some sins of commission or omission will no doubt be discovered, for which I accept full responsibility.