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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

REPORT OF THE EIGHTH SESSION OF THE COORDINATION COMMITTEE ON MULTILATERAL PAYMENTS ARRANGEMENTS AND MONETARY CO-OPERATION AMONG DEVELOPING COUNTRIES

Held at Santa Cruz de Tenerife, Canary Islands, Spain,
from 28 February to 1 March 1994

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I. INTRODUCTION AND ORGANIZATIONAL MATTERS

A. Introduction

1. The eighth session of the Coordination Committee on Multilateral Payments Arrangements and Monetary Cooperation among Developing Countries, organized in collaboration with Promociones Exteriores Canarias (PROEXCA) and the Official Chamber of Commerce, Industry and Shipping of Santa Cruz de Tenerife, was held at the auditorium of the head offices of the said Chamber of Commerce, from 28 February to 1 March 1994.

2. The session was attended by 31 participants, including nine representatives of seven multilateral payments and monetary cooperation arrangements, two representatives of international financial institutions, five representatives of Central Banks and five observers. The attendance list is to be found in annex I.

B. Opening ceremony

3. The session was opened at 10.30 a.m. on Monday, 28 February 1994.

4. In his opening statement, Mr. Mohammad Agha Ghavam, General Manager of the Asian Clearing Union (ACU) and Chairman of the seventh session of the Committee, welcomed the participants to the eighth session and also thanked the host Government, particularly PROEXCA, for the excellent facilities provided for the session. He noted that, since the Committee's last session in 1990, the international economic environment had undergone important changes, which had not always been favourable to developing countries' cooperation efforts. He said that the current session offered a unique opportunity for representatives of multilateral payments arrangements among developing countries to discuss their recent experience and to explore new avenues for enhancing their mutual cooperation. He then handed over the Chair to the co-Chairmen, Mr. Mathias Mbonela, Executive Secretary of the Preferential Trade Area of Eastern and

Southern African States (PTA) Clearing House and Mr. Cheikh Saad-Bouh Diao, Executive Secretary of the West African Clearing House (WACH).

5. Mr. Mbonela welcomed the participants to the session and noted the mixed results of payments arrangements against the backdrop of the international economic environment. He called for the optimum use of time available during the session for presentations and discussions. He also called on the United Nations Development Programme (UNDP) and the United Nations Conference on Trade and Development (UNCTAD) to assist in giving impetus to the payments and clearing arrangements.

6. Mr. Mbonela joined Mr. Ghavam in thanking PROEXCA for the excellent facilities provided for the session and the people of Tenerife for their hospitality.

7. Mr. Michael Sakbani, UNCTAD secretariat, made a statement on behalf of the Secretary-General of UNCTAD. (For the text, see annex III of this report).

8. Mr. Antonio J. Rivero Suarez, President of PROEXCA, welcomed the participants to Tenerife. He highlighted the role of the Canary Islands as a bridge between Africa and Latin America and drew attention to some imminent legislation (for the liberalization of telecommunication and transportation services, the creation of an offshore financial centre, etc) which would facilitate the fulfilment of that vocation.

C. Election of officers

9. The Bureau of the session consisted of the two co-Chairmen elected at the seventh session and Mr. Ghavam, who was elected Rapporteur.

D. Adoption of the agenda

10. The provisional agenda, prepared in the light of the decisions of the seventh session, was adopted. The agenda and the programme of activities of the eighth session are to be found in annex II.

II. CONFERENCE DELIBERATIONS

A. Review of recent developments in multilateral payments and clearing arrangements and assessment of currency convertibility and its implications

11. This item was discussed in two parts, (a) and (b). Under sub-item 4 (a). (Review of recent developments in multilateral payments and clearing arrangements and monetary cooperation among developing countries), the UNCTAD secretariat presented a report entitled "Clearing and payments arrangements among developing countries: recent developments, long-term policy considerations" (UNCTAD/ECDC/238), whose part I served as a sessional document. The report assessed the performance and the recent trends in, the activities of the multilateral clearing and payments arrangements against the background of developments in the international economic environment. The report pointed out that the major performers were concentrated in Asia and Latin America, with savings of foreign exchange accruing mostly to the members of the corresponding two schemes. It reviewed some of the most recent innovations in the payments and clearing arrangements, such as the ACU Currency Swap Arrangement (1989); the amendment of the Latin American Integration Association's (LAIA) Reciprocal Payments and Credit Agreement with a two-tier automatic payments programme (1991) and with the incorporation of a mechanism for deferred payments by instalments; the mechanism to channel triangular trade payments through the LAIA system; the PTA travellers cheques introduced in 1988; and the PTA Reserve Fund approved in 1994. The report considered also plans for the future in view of the conversion of WACH to a specialized agency of the Economic Community of West African States (ECOWAS) and ACU's efforts to increase its membership.

12. The representatives of the clearing houses and credit institutions made presentations reviewing the performance of their respective organizations (see annex III).

13. Some of the participants highlighted changes which were too recent to be reflected in the UNCTAD report. The representative of the Clearing House of the Economic Community of Central African States (CHCAS) reported on a recent agreement to offer a long-term payment schedule of the intra-grouping debt. The representative of the PTA Clearing House described a recent floating of PTA Bank commercial paper in New York and the activities of the PTA Re-insurance Company, based at Nairobi. He also informed participants about the technological upgrading of the Clearing House in order to accommodate future trade transactions once the grouping is enlarged. The representative of the Caribbean Community (CARICOM) Clearing Facility described the functioning of CARICOM travellers cheques until their suspension in 1993. Finally, the representative of LAIA informed participants that, all member central banks had recently put the channelling of transactions onto a voluntary basis. The last member country had abandoned mandatory channelling at the beginning of 1994. Thanks to the implementation of the Automatic Payments System in 1991, the stock of intra-grouping debts had recently dropped significantly (from a peak of US$ 5 billion to US$ 700 million); and from 1991, there had been no delays in payments.

14. In addition to describing clearing and payments arrangements, the representative of the Arab Monetary Fund made a presentation on his institution and on the Arab Trade Financing Programme (ATFP).

15. The review of the recent performance of clearing and payments arrangements and the discussion which followed it, contributed to the stock of ideas and initiatives to strengthen the arrangements and to link the payments systems with other elements of monetary cooperation.

16. At the end of the general debate, a representative of the UNCTAD secretariat made a summary of the debate which was accepted by all participants as a balanced summation:

(a) It was noted that the impact of external factors on the operations of the payments system is quite significant. These factors include, inter alia, the development of the world economy, political factors, the external debt problem and the foreign exchange constraints of developing countries.

(b) The differences in the scope of the various schemes were also noted, for example, the inclusion of oil in eligible transactions of ACU, which has had a very positive impact on the expansion of transactions, and its exclusion from the operations of WACH, which has hindered the effectiveness of that scheme. The same observation was made regarding the inclusion or exclusion of non-trade transactions (services and, eventually, investment) in the clearing mechanism. Another element in the scope of schemes concerns the correct choice of payments arrangements partners which offer the optimum prospects for trade complementarities. The Committee noted that geographic proximity does not suffice in forming a cooperative grouping.

(c) Participants felt that the problem of a single country accumulating arrears within the system and then bringing down the whole mechanism, required rapid solution. One solution might be the detachment of the non-performing assets. Another might be the use of assistance from developed regions. A third option is illustrated by the LAIA Automatic Payments System. In this context, it was noted that the forthcoming meeting of an UNCTAD intergovernmental group on aid in July 1994 would afford a unique opportunity to raise this issue. At that meeting, the countries of the Organization for Economic Cooperation and Development (OECD) will discuss the possibilities of giving direct assistance to developing countries' groupings, and it would be timely for cooperative groupings to attend.

(d) There was general agreement on the importance of underlying trade flows. The low level of intra-grouping trade observed in various groupings originates, _inter alia_, in the lack of current and potential production complementarities, the uneven distribution of benefits from regional trade liberalization, the inadequacy of trade financing, the lack of credit mechanisms, the lack of trade information, the problems of subsidized goods, and the lack of compensation for the loss of fiscal revenues stemming from tariff reductions. Wider cooperation than trade cooperation in fields such as joint production and investments was advocated.

(e) There was wide-ranging agreement that the problem of the differing degrees of convertibility within the same grouping may be handled by adopting limited convertibility.

(f) Special emphasis was laid on the importance of trade finance for expanding the underlying trade. In this context, the work of UNCTAD on assessing the feasibility of the Interregional Trade Financing Facility (ITFF) was invoked.

(g) The Committee concluded that economic cooperation among developing countries and payments arrangements offer the optimum midway stage in the process towards integration into the world economy and the global convertibility of national currencies. In this context, the transformation of payments arrangements into monetary cooperation zones should show the road of the future.

17. Under sub-item 4 (b). (Assessment of currency convertibility and its implications for payments and clearing arrangements), part II (Issues in convertibility) of the UNCTAD report (UNCTAD/ECDC/238) was presented as a background document. The report focused on both conceptual clarifications and the historical and current examples of currency convertibility. It made a distinction between global and regional (limited) convertibility. While the former is a means of integration into the world economy, the latter is a means of intraregional monetary and financial cooperation. The report also analysed the recent attempts of certain developing countries to achieve global convertibility of their national currencies and their impact on clearing and

payments arrangements.

18. Following a lengthy and discussion of various aspects of the issue, the following points emerged:

(a) Convertibility is not an end in itself but a means to attain certain goals, for example, as an external discipline on economic policies or the transmission of international price signals to local producers and consumers. It also creates serious obligations for, and may, under certain circumstances, limit the autonomy of monetary policy. It was felt that the attainment of credibility in the context of sound macroeconomic policies is a necessary element of sustainable convertibility. The establishment of domestic and external balances and a general manifestation of the health of the national economy are crucial factors in currency convertibility.

(b) Full convertibility is a state of meeting international obligations without resort to exchange controls. Special importance should be attached to the existence of an equilibrium exchange rate, because certain acceptance of a non-convertible currency is always subject to the condition that its holder accepts any exchange rate, however unfavourable.

(c) Participants attached equal importance to the micro- and macroeconomic consequences of convertibility. On the microeconomic side, the most salient elements are the linkage between domestic and international prices and the consequent efficient allocation of resources. On the macroeconomic side, convertibility puts pressure on countries to avoid bad policy measures that they would have been inclined to follow, had inconvertibility persisted.

(d) The Committee concluded that, given the current level of global capital market integration, convertibility is a prerequisite for the mobilization of resources on these markets.

(e) It was felt that adverse external effects such as fluctuations, particularly sharp declines, in international prices for commodities and raw materials, to which developing countries are highly vulnerable, can limit the positive results of convertibility. The tackling of these problems, although it fell beyond the scope of the current session, was an issue to be raised.

(f) As to the interaction between regional payments arrangements and convertibility, it was concluded that currency convertibility is an issue that is closely relevant to the clearing and payments arrangements as it is a means to support both regional cooperation and global integration, goals that are complementary rather than exclusive.

(g) The Committee also concluded that, although global convertibility seems to contradict, to a certain degree, participation in payments arrangements, the latter still affords four major advantages: deferred payments, credit access functions (if they are coupled with credit lines and swap arrangements), transitory mechanisms towards global convertibility and the enhancement of monetary cooperation among participants.

(h) Limited convertibility is a useful transitory arrangement for countries which wish to create global convertibility in the long run. The positive aspects of limited convertibility such as learning from consultation with neighbouring countries, the symmetry of obligations and the merits of monetary cooperation, should be highlighted. In the long term, this monetary and fiscal cooperation should lead to converging levels of convertibility. In the short term, the payments systems will function well if they use market exchange rates for the determination of the central rates, or, ideally, if they already had real regional convertibility before the creation of the payments systems.

(i) The impact of regional convertibility on regional competition was also noted. It was felt that for relatively less advanced countries, the upgrading of competition may first start among neighbours, leading to global competition at a later stage.

(j) Given the length of the period required for a complete transition from inconvertibility to full convertibility (a period which can extend to decades), the room for limited convertibility, particularly within the framework of payments arrangements and settlement mechanisms, remains ample. Nevertheless, limited convertibility should not foster the postponement of the necessary economic adjustments in the member countries. Further, it is equally important to establish new payments arrangements with moderate goals and practical mechanisms.

B. Discussion of modalities of institutional cooperation among African and Latin American clearing and payments arrangements

19. This item was discussed on the recommendation of the First Conference of Governors and Senior Officials of Central Banks of Latin American and African Countries on South-South Trade Expansion, held at Las Palmas, Canary Islands, 3-5 December 1990, "*to charge the Coordination Committee of Multilateral Payments Arrangements and Monetary Cooperation among Developing Countries, to formulate in its next* [8th] *meeting, multilateral mechanisms for African and Latin American countries*" (Recommendations, point 3). The UNCTAD secretariat's contribution was contained in the report entitled, "Institutional cooperation among African and Latin American clearing and payments arrangements" (UNCTAD/ECDC/237), which was distributed to the participants. The report discussed the modalities of multilateral institutional cooperation among African and Latin American clearing and payments arrangements based on the analysis of underlying trade flows between the two regions. As interregional trade between Africa and Latin America has been modest and has shown significant imbalances, the cooperation plans between the two regions should include various flexible elements including a linkage among the three existing African clearing houses and linkages between the two regions involving individual countries on one side

and a multilateral scheme on the other. Appropriate additional mechanisms such as interim finance arrangements, credit lines and swap arrangements could further improve cooperation between the two regions.

20. The discussion of institutional cooperation among African and Latin American clearing and payments arrangements may help to promote interregional cooperation among central monetary authorities and revive some of the non-operative payments and clearing arrangements in Africa and Latin America. Some participants felt that the consolidation of existing schemes could establish the ideal background for interregional linkages. Given the various shortcomings, such as the lack of financing facilities, in African and Latin American clearing and payments arrangements, and in light of the successful operation of the swap facility in ACU, the General Manager of ACU offered these arrangements ACU's technical assistance this area. The discussion may be summarized as follows:

(a) Participants concluded that there was a need to shift existing trade flows between Africa and Latin America to cooperative mechanisms to be created between the payments systems of these two regions. For this purpose, they agreed on the need for in-depth studies on conditions conducive to extending the activities of the respective systems into these mechanisms.

(b) It was also noted that the analysis of African-Latin American cooperation, may provide a good model for other regions. The General Manager of ACU emphasized the necessity of including ACU in the future in-depth studies on interregional linkages and cooperation among payments arrangements in developing countries. In the light of the historical record of close relations among all payments and clearing arrangements of developing countries and given the active role ACU has always played in the meetings of the Coordination Committee, the participants agreed with the proposal made by the ACU General Manager.

(c) Based on currently available information, participants felt that from a normative, technical point of view, the conducting of such transactions through existing payments systems is feasible. In this respect, the representative of the LAIA secretariat drew attention to the rules of the LAIA payments system, which allow the participation of any country from outside the region. He also thought that the prototype payments arrangement (*modelo de acuerdo de pagos*), which is in an advanced phase of preparation by his grouping, might also serve as a tool for the conclusion of prospective arrangements with these third countries. He emphasized that the LAIA Treaty offers adequate mechanisms for its members to negotiate and conclude preferential trade agreements with any developing country.

(d) Some participants stressed that the harmonization of rules among payments arrangements is a crucial element for stimulating the establishment of linkages and promoting cooperation between these arrangements.

(e) Participants noted that central banks and other national government agencies may have important contributions to make in shifting the existing African-Latin American trade to the payments systems of these two regions. Central banks should stimulate the use of these mechanisms for interregional payments, lift foreign exchange restrictions and stimulate corresponding relations among commercial banks. The representative of ACU regarded the mandatory channelling of relevant transactions as an element in the success of his grouping.

(f) Governments should give general political support to interregional cooperation and adopt appropriate policies aimed at eliminating the obstacles to this cooperation, such as the lack of efficient telecommunication and transportation facilities and the tariff and non-tariff barriers hindering the flow of external trade among developing countries.

C. Venue and arrangements for the ninth session of the Committee and other business

21. The Committee discussed the venue and arrangements for its ninth session. The Secretary-General of the Latin American Integration Association was elected Chairman of that session. The representative of LAIA proposed that the session be held at LAIA headquarters in Montevideo, Uruguay, in 1996.

D. Adoption of the report

22. At the closing meeting, Mr. Ghavam, Rapporteur, submitted the draft report to the Committee. The report was adopted. Mr. Diao, co-Chairman, thanked all the participants and the organizers of the session for their constructive contribution to the success of the deliberations and invited all participants to work together in the activities to be carried out in the framework of the Committee's work programme.

III. WORK PROGRAMME OF THE COMMITTEE

23. The participants adopted the following work programme:

(a) In the light of the deliberations of its eighth session, the Committee called upon all the multilateral payments arrangements and the other monetary cooperation forums of developing countries, to continue or to start, with the support of the technical assistance provided by UNCTAD and UNDP to them, programmes of mutual exchange of experience. Such programmes would help improve the rules and regulations governing the different arrangements, and also advance the technical capability of the less advanced clearing and payments houses. In this connection, the participants agreed to benefit from the technical assistance offered by the General Manager of ACU in different areas including the establishment of swap mechanisms.

(b) The Committee called upon UNCTAD, which is its technical secretariat, to set up, in consultation with the Chairman of the Committee, an agenda for the ninth session of the Committee, and to prepare the necessary documentation for the session. The agenda should include, among other topics, (i) a review of recent developments in the clearing houses; (ii) the assessment of the interaction between payments and clearing arrangements on the one hand and monetary and fiscal cooperation and harmonization policies on the other, in such fields as inflation, fiscal deficit and deficit financing, aiming at the transforming the arrangements into wider-spectrum, multifunctional systems.

Annex I

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Annex II

AGENDA AND PROGRAMME OF ACTIVITIES

Agenda

Item 1. Opening of the meeting

Item 2. Election of officers

Item 3. Adoption of the agenda

Item 4. Review of recent developments in multilateral payments and clearing arrangements and assessment of currency convertibility and its implications.

(a) Review of recent developments in multilateral payments and clearing arrangements and monetary cooperation among developing countries

(b) Assessment of currency convertibility and its implications for payments and clearing arrangements

Item 5. Discussion of modalities of institutional cooperation among African and Latin American clearing and payments arrangements

Item 6. Work programme of the Coordination Committee

Item 7. Venue and arrangements for the ninth session of the Coordination Committee and other business

Item 8. Adoption of the report of the eighth session

Programme of activities

Monday, 28 February

9.30 a.m.	Departure of the bus from the hotels for the Chamber of Commerce
10.00 a.m.	Registration of participants
10.30 a.m.	Opening of the meeting. Addresses by Mr. M. Sakbani (UNCTAD) and by Mr. A. J. Rivero Suárez (PROEXCA)
	Election of officers
	Adoption of the agenda
	Organization of the work of the meeting
	Introduction of participants
11.00 a.m.	Coffee break
11.30 a.m.	Working Session I
	Item 4 of the agenda: "Review of recent developments in multilateral payments and clearing arrangements and assessment of currency convertibility and its implications"
	Sub-item 4a: "Review of recent developments in multilateral payments and clearing arrangements and monetary co-operation among developing countries"
1.30 p.m.	Lunch offered by PROEXCA in the Casino of Santa Cruz de Tenerife
3.30 p.m.	Working Session II
	Sub-item 4a of the agenda (continued)
5.00 p.m.	End of Working Session II
8.30 p.m.	Departure of the bus from the hotels for the Royal Yachting Club of Santa Cruz de Tenerife
9.00 p.m.	Reception offered by the Chamber of Commerce, Industry and Shipping of Santa Cruz de Tenerife, in the Royal Yachting Club

Tuesday, 1 March

9.30 a.m.	Departure of the bus from the hotels for the Chamber of Commerce
10.00 a.m.	Working Session III
	Sub-item 4b of the agenda: "Assessment of currency convertibility and

	its implications on payments and clearing arrangements"
11.30 a.m.	Coffee break
12.00 a.m.	Item 5 of the agenda: "Modalities of institutional cooperation among African and Latin American payments arrangements"
2.00 p.m.	Lunch break
5.30 p.m.	Item 6 of the agenda: "Work Programme of the Coordination Committee" Item 7 of the agenda: "Venue and arrangements for the 9th Meeting of the Coordination Committee and other business"
8.00 p.m.	Adoption of the report of the 8th Meeting and transfer to the hotels
9.00 p.m.	Dinner offered by the Excmo. Cabildo Insular of Tenerife, in the Hotel Mencey of Santa Cruz de Tenerife

Annex III

SPEECHES AND PRESENTATIONS

Eighth session of the Coordination Committee on Multilateral Payments Arrangements and Monetary Cooperation among Developing Countries

An opening speech by Dr. Michael Sakbani, chief of the UNCTAD delegation, on behalf of the Secretary General of UNCTAD

Mr. Chairman, distinguished participants,

I would like on behalf of the Secretary-General of UNCTAD to welcome all of you to this meeting. I take this opportunity to thank PROEXCA and the Government of the Canary Islands for their hospitality in hosting this meeting and complement them on their efficient and thorough organization. I express the sense of all of us in being very happy to be in this beautiful place and among its friendly people.

This meeting takes place against very important changes in the world economy and the conditions of many member countries. It also comes at a time when the ECDC process is undergoing fundamental changes in scope, a nature and one might say in aims.

The World economy is showing isolated signs of recovery, notably in the U.S. and the U.K., in several Latin American countries, a continuation of strong performance in East and South East Asia, and respectable performances in the Indian sub-continent. However, many Latin American countries, the overwhelming majority of African countries, many West Asian countries and Japan and Western Europe, are all still in varying degree of recession. And while there are indicators of positive trends on the horizons, several weaknesses of the recovery can be noted:

1. The fragility of the recovery in Latin America in view of its dependence on shifting capital inflows with great potential for reverse movements.

2. The deterioration of the balance of payments of several Latin American countries which have registered the best performance.

3. The persistence of high unemployment in most Western European economies accompanied by a slow pace of investment and displacement of jobs to lower-wage locations.

5. The structural problems of the Japanese economy.

6. The continued low-ebb in the economic performance of the former Soviet Union and Eastern Europe.

Against this mixed background, the payments and clearing arrangements of developing countries continue also to have a mixed record. Two of them, the ACU and the LAIA system have been operating at very satisfactory levels by all indicators: by the volume of cleared trade, the volume of settlement in local currency, the wider scope of their operations, and the absence of arrears in their operations. Others have not fared well, they are either still under-utilized like the PTA, still suspended, CARICOM and Central America, or clearing very insignificant amounts of intra trade as is the case in Central and West Africa.

The question naturally arises, what are the prospects of these arrangements in the years to come? One cannot make a judgement on these prospects in isolation; it has to be anchored on the trends one can observe in the ECDC process. In this respect I can venture the following observations:

First of all, despite the increased movement of many developing countries towards global convertibility, many other countries are still years away from full convertibility. Hence, the classical "raison d'être" of these arrangements as providers of relief from the foreign exchange constraint persist in those cases.

Secondly, regional and sub-regional integration is now one of the most salient features around the globe. If this trend is to continue, and every sign indicates so, then zones of convertibility or what may be called "limited convertibility" such as afforded by the payments and clearing arrangements, are likely to be instrumental to this process of integration and regional cooperation.

Thirdly, in the former Soviet republics, payments and clearing arrangements might hold a great promise for trade resumption under conditions of severe foreign-exchange shortages.

Fourthly, even among countries such as those of the ACU, most of which now enjoy convertibility, these arrangements are being transformed into fora of monetary and financial cooperation in addition to their traditional functions.

Fifthly, South-South trade and financial exchange reflect in equal measure the underdeveloped state of the economies and their trading sector. Even in South and East Asia where 2/3 of intra-trade is now taking place, the potential is hardly approached. Hence, these arrangements will continue to offer essential channels for lubricating and facilitating the growth of intra-trade.

Finally, the arrangements when coupled to credit lines, still afford extra financial access, save on costs, and encourage harmonization and coordination of exchange rates and monetary and credit regulations. Hence, they have a clear instrument value to monetary and financial integration.

Let me close by raising a fundamental question: are these arrangements as manifestations of ECDC, incompatible with a wide-open and a multilateral global system? I would rather say no; for on the way to integrating into the global economies, the vast majority of developing countries can acquire the skills, the know-how, the scale-economies and the trade-associated services necessary to global trading through regional cooperation via learning-by-doing. They might prove to be fast quitters of the global liberal system if they were to be unprepared plungers. Indeed, there is now every indication that the aim of ECDC in the 1990's is to integrate cooperation partners into the world economy through this mid-way house.

I wish you success in your work, and thank you for your attention.

Recent developments in the Asian Clearing Union

by *Mohammad A. Ghavam*

General Manager of Asian Clearing Union

In the Name of Allah,
The Compassionate the Merciful

Mr. Chairman,
Distinguished Delegates,

It is a special privilege for me to attend such an important meeting held at this important juncture.

At the outset, allow me to express my sincere appreciation to Promociones Exteriores Canarias (PROEXCA) for their valuable collaboration in providing excellent facilities for convening this meeting. I would also like to extend my thanks to UNCTAD for their diligent work in preparing the meeting. My gratitude must also be addressed to the autonomous government and people of the Canary Islands, for enabling us to get together in this beautiful Island and for their warm and friendly hospitality.

The Eight Session of the Co-ordination Committee on Multilateral Payments Arrangements and Monetary Co-operation among Developing Countries, is taking place at a very propitious time. As a platform of cooperation among developing countries in the area of money and finance, the success of this meeting, like the previous ones, will undoubtedly help the promotion and attainment of the common economic goals of the developing countries. Therefore, I call upon all my dear colleagues present here, to gather their collective endeavour to make this meeting a very successful one.

Mr. Chairman,

During the years after the last meeting of the Coordination Committee in 1990, held in the same beautiful Islands, we have witnessed important economic and political developments, regionally and internationally. It will be useful to have a glance through the economic environment surrounding the developing countries. Indeed, the extent of cooperation among developing countries in different areas, including the area of monetary and finance, is highly dependent on the externalities encompassing these countries as well as their internal economic developments. Both affecting their economic growth, external trade and virtually their mutual ties and relations.

Mr. Chairman,

The current world economy has been marked by a rather sluggish economic growth for five consecutive years. The current cycle began in 1991, when the growth of world real GDP fell from 4.6 per cent in 1989 to only 0.6 per cent in that year. The optimism arisen from the positive impacts of the decline in international oil prices on the economies of the industrial countries (in particular, in the U.S. economy), and the new hopes of resumption of a lasting economic growth in the economies which have been acting as the locomotives of the world economy emanated from the termination of the cold war, have not materialized. Indeed, the world, and particularly the industrial world, need a comprehensive and deep restructuring to regain their economic momentum. Under these circumstances, economic wars, in place of military confrontations, have come into the forefront. The prevailing doctrine about the impacts of economic liberalization and promotion of economic competition, which had gained new attractiveness at the beginning of the 1980s, has intensified the economic conflicts. However, the need for amalgamation of capitals and resources, have convinced various groups of countries to get together and establish new regional unions. The North American Free Trade Agreement (NAFTA) among Canada, Mexico and United States (to which many other Latin American countries may wish to join), the establishment of the European Union (EU) with a prospective common currency, and the special meeting of Asia-Pacific Economic Caucus (APEC) on November 19 and 20, 1993, indicate the interest of the United States and the more developed countries of Europe and Asia in the strengthening of regional integration. These developments are paving the way toward making considerable structural and institutional changes. These phenomena, of course, do not necessarily eradicate the cyclical economic recession in the world or put an end to the frictions in different fronts.

Notwithstanding the developments that took place at the beginning of the 1990s, slow growth in the world economy has continued. The world GDP increased only by 1.7 per cent in 1992. Although the United States entered into a period of moderate economic recovery in 1992, Japan and the EU experienced such a deep recession in 1993 that it casts doubts over the continuation of recovery in the U.S. The prospects for 1994-95 are also uncertain. Indeed, the uncertainty characterizing the short-term prospects is underscored by a further markdown of the output projections for most industrial countries.

Despite the fact that the whole developing world experienced some economic growth, the situation in specific regions has been uneven. Economic growth in Africa slowed down from 3.9 per cent in 1988 to 0.4 per cent in 1992 and it is not expected to exceed 2.6 per cent in 1994. In Asia, the newly industrializing economies (NIES), and particularly the members of the Association of South-East Asian Nations (ASEAN), have benefitted from a more sustainable growth. The trend of economic growth in the Middle East was very much affected by the fluctuations in international oil prices. The economic situation in the Western Hemisphere has been traditionally dependent on the outcome of the process of the economic reform programs implemented in this region and on the inflow of the foreign direct investments.

In the economies of the countries in transition, formerly called "the Eastern Block", economic output has fallen sharply from 1990 onward. It is expected that these countries experience a slower pace of declining economic activities from 1994. Although the restructuring of these economies, particularly in Central Asia, will provide better opportunities for cooperation among developing countries, their demand for financial support from the international community will certainly limit the availability of external finance to the other developing countries.

The debt crisis still exists. Presently, there are nearly 60 countries which are heavily indebted. Notwithstanding the improved credit ratings of the highly indebted countries in Latin America, the international financial market now faces the same level of risk as at the beginning of the last decade. It is expected that the total external debt of the developing countries continues to increase in 1993 and 1994, amounting to US dollar 1476 and US dollar 1527 respectively.

The Uruguay Round of the General Agreement on Tariffs and Trade (GATT) negotiations was finalized after 7 years, by the ratification of the Agreement by the members on 15 December 1993. For developing countries, the reductions in tariffs of industrial countries stipulated in the new agreement does not seem to increase too much the access to the developed markets. Furthermore, the envisaged gradualism and slowness in liberalizing agricultural and textiles trade and in the opening of the markets in the industrial countries, reflects the lack of fairness in the achievements from the Uruguay Round for developing countries.

Mr. Chairman,

Against this background, allow me at this point, to give very brief information on the establishment of the Asian Clearing Union, and review its activities and operations during the past couple of years.

The need for further strengthening of the monetary and financial co-operation among developing countries and the desire to create an effective system to help reducing the needs for foreign reserves and enhancing the use of national currencies in foreign transactions, resulted in an Agreement among the Central Banks of five Asian Countries, namely India, Iran, Nepal, Pakistan and Sri Lanka, on December 9, 1974.

Soon afterwards, Bangladesh joined the agreement, while Myanmar, formerly Burma, signed the Agreement in November 1977. To keep open the way for diversification of cooperation among the developing countries, the Agreement allows the members to engage in any other clearing arrangements with third countries, an opportunity which has already been used by some member countries. However, membership in the ACU is open to all countries in the Economic and Social Commission for Asia and the Pacific (ESCAP) region.

The goals envisaged by members, as reflected in Article 2 of the Agreement, have been comprehensive, ambitious and achievable.

Indeed, providing a facility to settle, on multilateral basis, payments for current international transactions; using national currencies in the current transaction so as to enhance the convertibility of currencies and economize on the utilization of foreign reserves; promoting monetary and banking cooperation among member countries, aimed at expanding their trade and economic activities and providing a currency SWAP facility to the members, with a view to alleviate the pressures on the members facing balance of payments constraints by the help of surplus countries are amongst the goals of the ACU.

From the organizational point of view, the ACU has a Board of Directors on the top, comprising the Governors of the Central Banks; the annual meetings of the Board of Directors deal with various topics as well as exchanging views on common issues and problems confronting members and virtually setting guidelines conducive to the promotion and the improvement of the Union's activities. Among the important results of the board meetings, the appropriate ground for making changes and bringing convergence in certain national rules and regulations, essential for further attainment of the common goals, has been laid down. Furthermore, the enlarging of the categories of goods and services eligible for being channelled through the system, particularly the eventual acceptance by the Islamic Republic of Iran, to include petroleum and oil products among the channelled items, the refraining of Iran and Pakistan from using Economic Cooperation Organization (ECO)'s channelling system, and the directing of their transaction toward ACU are among the tangible collective endeavours of the directors made during their meetings of their exchange of views.

The ACU also benefits from secretarial services located in Tehran, Islamic Republic of Iran, directed by the General Manager, who discharges his functions and responsibilities according to what is mandated by the Board of Directors to him and carried out by a permanent staff. The ACU Secretariat, and more specifically the General Manager, conduct the ordinary business of the ACU, prepare and submit, among other documents, the financial statements, annual budgets and the draft annual reports to the Board.

The ACU Secretariat in Tehran, in conducting the ordinary business of the Union, benefits from well-advanced facilities, including a highly computerized system and a team of qualified and capable experts. The preparatory steps have been also taken to link the Secretariat to the SWIFT System. While most of the ACU member countries are connected to SWIFT, the ACU Secretariat is planning to begin using this system to handle its business in a couple of weeks.

Moving on to the operational aspect of the system, the ACU operations are based on a common monetary unit, i.e. the Asian Monetary Unit (AMU), equalling one Special Drawing Right of the International Monetary Fund (IMF), which is used for book-keeping purposes and the conversion of the national currencies of the member countries to each other. The mechanism for calculating the parities is simple and practical. The parity between the AMU and the participants' currency will be notified by the IMF to the ACU Secretariat and to all member countries. These rates are computed by the IMF on the basis of information received from the members.

While transactions among the member countries can be quoted in AMU, their national currencies or any hard international currency, the accounts are kept only in AMU. A settlement period of two months is incorporated in the system with a further grace period of two months, resulting from the use of the SWAP facility by debtor member. The settlement of the accounts is done on the multilateral basis by a virtual transfer of the balances in favour of creditors in hard currency.

As to the benefits of the ACU to its members, we should note that apart from economizing on the use of foreign reserves by the members, expenses are saved by not paying commission fees and charges to international banks for handling transactions. This is due to the fact that all transaction within the ACU are handled by the domestic banks of the member countries. Moreover, there is no question of confidence between two parties involved in mutual trade, and therefore the relevant Letters of Credit are opened by the domestic banks without any request for confirmation by foreign banks.

In order to exhibit a better picture of the activities of the ACU, some general data is offered. In the first year of its operation, the total volume of trade (Exports plus Imports) channelled through the system amounted to only AMUs 44 million; in 1990 the same figure was AMUs 2,014 million. For the year 1993, the total volume of trade routed through the ACU amounts to AMUs 2,076 million. Out of the total transactions (including interest) made through the ACU in 1993, the amount of AMUs 308 million, or 30 per cent was settled in foreign exchange and the rest, i.e. AMUS 730 million, or 70 per cent was cleared inside the system.

It is noteworthy that, despite the rather unfavourable environment surrounding the ACU member countries and the difficult and painful economic reform programmes undertaken by may of them, and the fact that some of the ACU members are officially classified as low-income countries, the determination of the authorities of the member countries to have a successful clearing system, has resulted in notable results. The increasing trend of the intra-grouping trade channelled through the system, the low ratio of transactions cleared or settled in foreign exchange to the total transaction, and the refraining from the accumulation of any arrears since the creation of the system, are worthy to be repeated in this respect.

Mr. Chairman,

Notwithstanding the progress made in the operations of the ACU during its nineteen years of activities, I acknowledge that it is still suffering from a number of shortcomings and there is also a lot of room for the diversification and the expansion of its activities. Indeed, the ACU should include in its framework areas such activities, as the creation of a reserve fund, the provision of the members with common financial instruments, and above all, the enlargement of its geographical coverage.

In this regard, I agree completely with the content of paragraph 104 of the comprehensive ad very useful paper, prepared by the Division of ECDC of UNCTAD[1], that the ACU members, in the later stages, should "transform their clearing systems into payments unions and, later on, monetary cooperation zones. In this case, their activities may cover, beside payments for trade, exchange rate harmonization, cooperation in the design and implementation of fiscal and monetary policies, promotion of intra-grouping capital flows by the harmonization of the regulation of money and capital markets, and, eventually, concentration in the conception and realization of adjustment programmes to ensure their compatibility with the objectives of sub-regional integration".

To investigate the possibilities and to encourage the countries eligible to join the ACU, ACU held a workshop entitled "Clearing Arrangement in the Asia and Pacific Region": on 26-27 of October 1991. The main goal of this workshop was to introduce the Asian Clearing Union and elaborate the benefits entailing the ACU membership, to the representatives of non-member countries which were invited to the workshop. Along with the representatives of the ACU member countries, monetary authorities and expert from six other Asian countries attended the workshop. The outcome of the workshop, although positive, has not yet resulted in the expansion of the number of members. Much work has been left in this area, which is on the current agenda of the ACU.

Given the above, I would like to call, from this chair, in the capacity of General Manager of the ACU, on all ESCAP countries, to consider seriously their membership in the Asian Clearing Union. Indeed, joining this system, will not only favour the strengthening of the monetary and financial ties among developing countries, but also will help decisively the expansion and diversification of the members' external trade, and will lead to the promotion

[1] "Clearing and Payments Arrangements among Developing Countries: Recent Developments, Long-term Policy Considerations", 4 February 1994, UNCTAD/ECDC/238.

of their economic growth as well as the enhancement of the living standards of their people. It has to be mentioned that, for the countries implementing economic policy reforms, particularly economic and trade liberalization programmes, under which, their Balance of Payments position will naturally sustain pressures from import liberalization, joining the Asian Clearing Union will provide some relief through lowering their needs for hard currencies for external payments. They can also benefit from credits granted to them under the SWAP facility available in the system. Members have easy access to this facility for a cost which is lower than that of the other similar financing window.

As far as ACU's potential contribution to the improvement of other multilateral payments arrangements of developing countries is concerned, while admitting that stronger collective efforts by the member countries will be a crucial element in overcoming the shortcomings still facing some of the regional clearing systems, they could also rely on the technical assistance made available to them by the Asian Clearing Union in different areas.

Thank you.

Recent Developments in the CARICOM Multilateral Clearing Facility, 1988 - 1993

by *Ms. Joan John*
Manager, Foreign Exchange and Investment Department
Central Bank of Trinidad and Tobago

The Caricom Multilateral Clearing Facility (CMCF) suspended activities in 1983, after six (6) years of operation, as a result of the accumulation of arrears. In the period since then, the region has re-examined the viability of reactivating the Facility. At a meeting of Governors of Central Banks in the region in December 1990, a Committee was established to prepare a report on the possible ways of reviving the Facility, the benefits to the derived therefrom, the targets for possible implementation and the associated difficulties. The report, presented in 1991, concluded that the prospects for a resumed CMCF were not propitious in view of the inability of the debtors to settle obligations, the inability of participants to capitalize a new arrangement with any substantial US dollar equity contribution and in view of the foreign exchange arrangements being adopted by a number of member countries.

In the period since suspension therefore, the only activities which have taken place under the aegis of the CMCF have been the rescheduling the obligations of the debtor (in the case of the CMCF, it is to be noted that there is one major debtor owing in excess of US$ 160.0 million to the Facility) and the activities of the Caricom Travellers Cheques (CTC) Facility. The latter was terminated on 31st December, 1993, in large measure because interest in it had been lost with the weakening in the value of the currency, the Trinidad and Tobago dollar, in which it was denominated.

Consequently, although it may be argued that such institutions are more critically needed in times of economic difficulties, it is essentially because of this situation and more particularly the process of adjustment, including the foreign exchange arrangements adopted that these institutions have fallen into desuetude.

Two aspects of developments in the region may therefore be of interest to this forum - the first relates to the experience of the CTC Facility and the second to the foreign exchange arrangements in the region.

1. Recent Performance of the CTC

The CTC Facility operated from 1980 to 1993. The cheques were issued in Trinidad and Tobago dollars in denominations of 10, 20, 50, and 100. Usage of this facility has fluctuated over the years but reached record low levels in the last couple years of operation. The attached **table 1** shows the US dollar value of sales and encashments of cheques over the five (5) years 1986 to 1991. From average annual levels in excess of US$ 3.0 million, both sales and encashments declined below US$ 1.0 million in 1992. The data for 1993 is not yet available, but indications are that sales declined further.

The experience of the Facility suggests that greater interest was shown by member countries when economic difficulties encouraged a search for ways and means to conserve on the use of foreign exchange. However, as such difficulties intensified, the amount of travel in the region declined. In any event, the destination of travellers from the area has generally been to extra-regional destinations and this has affected the viability of the Facility. The falling interest in the Facility became clearly evident in 1991 when sales in the three (3) countries experiencing most severe economic difficulties were significantly reduced. The depreciation of the Trinidad and Tobago dollar over the period further weakened interest in the chequing facility. It is to be noted that this currency declined in value in three (3) stages, from a value of TT$ 2.40 = US$ 1.00 to TT$ 5.70 = US$ 1.00 to TT$ 3.60 = US$ 1.00; the second movement occurred in 1988 when there was a further devaluation to TT$ 4.80 = US$ 1.00, and the most recent devaluation on 13 April, 1993 to TT$ 5.60 = US$ 1.00 which accompanied the floating of the exchange rate. Furthermore, the trend in foreign exchange arrangements does not suggest an early return to fixed exchange rate values but rather towards flotation and convertibility of currencies.

2. Developments in the Foreign Exchange Arrangements

Up to 1981, all countries in the region carried fixed exchange rates to the US dollar. Currently, there are a variety of systems in the region. This development can be viewed in the context of the increasing number of developing countries which have adopted floating or flexible rates regimes. Over the period 1977 to 1990, the proportions of Fund member developing countries who have adopted flexible arrangements have risen from 13 per cent to 36 per cent. Within the region, three members - Guyana, Jamaica and Trinidad and Tobago -have adopted some form of flexible exchange rate system.

In 1981, Guyana began to use a basket of currencies to determine the external value of its currency and in February 1987, a free foreign exchange market scheme intended to operate at market related rates at commercial banks was established. In September 1991, Jamaica introduced full liberalization of the exchange system. In this environment, both spot and forward exchange rates are determined by supply and demand conditions in the interbank market. In April 1993, Trinidad and Tobago implemented a floating exchange rate regime and simultaneously abolished exchange controls.

3. Conclusions

The recent exchange rate policies of CMCF member countries have added much uncertainty to the value of their respective currencies. Additionally the economic performance of countries make it infeasible for many of them to offer credit to the region particularly in the context of the existing arrears. As a result, a move towards revival of the CMCF in the near term does not appear to be likely.

Table 1
CARICOM TRAVELLERS CHEQUES
SALES AND ENCASHMENTS
US DOLLARS
1986-1992

SALES

CENTRAL BANK	1986 US$	%	1987 US$	%	1988 US$	%	1989 US$	%	1990 US$	%	1991 US$	%	1992 US$	%
Trinidad & Tobago	1,695,016	43.51	1,141,772	34.04	777,720	23.56	2,592,927	52.05	2,082,838	48.91	649,511	45.68	139,099	21.04
Barbados	561,491	14.41	493,000	14.69	568,879	17.23	640,854	12.86	687,485	16.14	587,696	41.33	381.496	57.70
East Caribbean Central Bank	257,147	6.60	217,419	6.48	248,917	7.54	143,275	2.88	1600,565	3.77	127,560	8.97	140,473	21.24
Guyana	682,783	17.53	682,941	20.36	943,530	28.58	711,824	14.29	468,682	11.01	24,986	1.76	0	0.00
Jamaica	698,936	17.94	819,422	24.42	761,902	23.08	893,127	17.93	859,198	20.17	32,186	2.26	118	0.02
Belize	36	0.01	488	0.01	323	0.01	0	0.00	0	0.00	0	0.00	0	0.00
TOTAL	**3,895,409**	**100**	**3,355,042**	**100**	**3,301,271**	**100**	**4,982,007**	**100**	**4,258,768**	**100**	**1,421,939**	**100**	**661,186**	**100**

ENCASHMENTS

CENTRAL BANK	1986 US$	%	1987 US$	%	1988 US$	%	1989 US$	%	1990 US$	%	1991 US$	%	1992 US$	%
Trinidad & Tobago	946,609	22.58	827,691	25.56	961,261	30.01	1,315,063	29.25	1,032,447	24.15	523,701	33.26	321,586	44.41
Barbados	1,007,705	24.04	828,527	25.59	721,871	22.53	1,009,473	22.45	1,179,584	27.59	334,551	21.25	91,007	12.57
East Caribbean Central Bank	1,858,644	44.34	1,205,725	37.24	1,96,076	34.21	1,569,788	34.91	1,491,751	34.90	614,784	39.04	255,962	35.35
Guyana	24,861	0.59	34,272	1.06	45,753	1.43	50,626	1.13	48,075	1.13	70,341	4.47	35,689	4.93
Jamaica	330,700	7.89	316,138	9.77	360,646	11.26	527,838	11.74	508,741	11.90	31,082	1.97	19,386	2.67
Belize	23,083	0.56	25,336	0.78	17,874	0.56	23,426	0.52	14,176	0.33	224	0.01	522	0.07
TOTAL	**4,191,602**	**100**	**3,237,689**	**100**	**3,203,481**	**100**	**4,496,214**	**100**	**4,274,772**	**100**	**1,574,683**	**100**	**724,153**	**100**

Recent Developments in the Clearing House of the Economic Community of Central African States (CHCAS)

by *Mr. Paul Andely*
Executive Secretary of the CHCAS

(Original: French)

The Clearing House of the Economic Community of Central African States (CHCAS), created by the Treaty establishing the Community among 10 Central African States (Burundi, Cameroon, Central African Republic, Congo, Gabon, Equatorial Guinea, Rwanda, São Tomé and Príncipe, Chad and Zaire), took over, on 2 September 1989, the activities of the former Central African Clearing House "CAfCH", which had been set up by an agreement signed between the Banque des Etats de l'Afrique Centrale (BEAC) and the Bank of Zaire in January 1979.

The CHCAS has 5 member central banks with 5 different currencies, namely: the Burundi franc, the CFA[2] franc, the Rwanda franc, the São Tomé and Príncipe dobra and the zaire.

1. Features of the CHCAS mechanism

The basic features of the rules and regulations governing the CHCAS operations are the following:

Nature of transactions eligible for the mechanism:	Goods originating in member States
Common unit of account and of conversion of national currencies:	Central African Unit of Account "CAUA", equalling 1 special drawing right (SDR)
Currency of invoicing:	1. CAUA or SDR; or 2. the currency of the exporting country; or 3. the currency of the importing country
Intervention currencies for the settlement of balances among Central Banks:	Any currency making up the SDR
Methods of payment eligible in the mechanism:	All the payment methods currently used in international trade
Period of interim credit among Central Banks:	One month
Exchange rate to be applied in the settlement of balances:	Daily exchange rate

2. Performance of the CHCAS

The performance of the Central African clearing system is presented in table 1 of the document entitled "Clearing and payments arrangements among developing countries: recent developments, long-term policy considerations"[3].

It should be pointed out that the figures presented in the table are in millions of Central African Units of Account or SDRs.

The following data may be added to the table:

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[2] "Communauté Financière Africaine". The CFA Franc is the common currency of the 7 members of the Banque Centrale de l'Afrique de l'Oest / BCAO and the 6 members of the Banque des Etats de l'Afrique Centrale / BEAC.

[3] UNCTAD/ECDC/238, 4 February 1994.

Year	Total transactions channelled through the system (2)	Net settlements in foreign exchange (3)	Ratio (percentage) =(3)/(2)
1992	21.8	21.8	100
1993	-	-	-

According to the figures presented, the Central African sub-region shows the following characteristics:

- it has the lowest volume of intra-subregional trade among all the groupings analysed (13.8 per cent of the corresponding figure of ECOWAS and 31.1 per cent of the volume of intra-PTA trade);

- it has the lowest percentage of intra-subregional trade (0 to 1 per cent) channelled through the Clearing House from 1986 to 1993;

- it has the highest ratio (73 to 100 per cent) of net settlements in foreign exchange in the Clearing House.

The level of intra-African trade is generally low, but it should nevertheless be stressed that the Central African subregion is the one which manifests the weakest points in the evaluation of subregional trade performance.

This particular situation is due to the growing obstacles of all kinds: political, economic, regulatory and administrative.

Examples are:

- The strong orientation towards import substitution in favour of the domestic market;

- The lack of efficiency in the export promotion systems;

- The imbalance of trade, created by production structures which are competitive rather than complementary;

- The tariff and non-tariff barriers;

- The rigidity of immigration regulations among the countries of the subregion, which hinders the circulation of persons and goods;

- The unreliability and high cost of transport and communication;

- The lack of trust among economic operators fuelled by the diverging trade traditions and practices of the two sub-groups of the Economic Community of Central African States (ECCAS);

- The disparity in foreign exchange regulations and the very shaky monetary cooperation among States;

- The distrust among commercial banks concerning the establishment of correspondent relations.

The basic task of ECCAS is to eliminate the above-mentioned obstacles gradually in order to lead the States of the sub-region to economic integration, but it should be noted that, unfortunately, the achievements of our Community on the road to the liberalization of intra-Community trade have been meagre.

The financial difficulties that the General Secretariat of ECCAS has had to contend with for more than three years, which have paralysed its operations, are more than worrying from the point of view of the attainment of the basic goals assigned to this sub-regional economic grouping, which is indispensable for the creation of the African common market envisaged by the Organization of African Unity (OAU).

It is up to the highest authorities of Central Africa, therefore, to revive the activities of the General Secretariat of ECCAS in the framework of a restructuring plan that will be submitted to them very shortly.

3. Analysis of the performance of the CHCAS

The transactions of 25.8 million SDRs, channelled through the CHCAS from its inception in 1989 through December 1993, relate exclusively to the imports of Zaire from countries members of the BEAC (Cameroon, Central African Republic, Congo and Chad).

The product structure is the following:

Consumer goods:	91.0 per cent
Industrial products:	6.8 per cent
Petroleum products:	1.3 per cent
Services:	0.9 per cent

The upsurge of transactions in 1992 was exceptional. It was produced by the imports of certain food items (rice, flour, sugar etc.) and of the pharmaceuticals Zaire urgently needed after the destructive events of September 1991.

Zaire is thus the major user of the CHCAS and solely as an importer from the States of the BEAC emission zone. This one-sided use of the Clearing House system by the importers of Zaire is explained by the fact that, up to now, they have benefited from the exchange rate by paying their bills in zaires at the low official exchange rate applied by the Clearing House instead of the permanently depreciating real market rate of the zaire.

Zaire's exports to the other countries of the subregion do not go through the Clearing House because, with the shortage of the means to make external payments, the revenues in foreign currencies required to pay the clearing debt balances in hard currency, which normally get back to the Central Bank, are unavailable from banks or from economic operators.

This is why there are no cleared balances in the CHCAS mechanism and why the Bank of Zaire is in the position of debtor with regard to the BEAC.

The absence of clearing, which has created the lack of savings in hard currencies, goes against one of the basic goals of the clearing system.

This situation is maintained by production structures and a monetary system of open coexistence with the parallel currency market.

The ideas currently analysed by the Bank of Zaire on the elaboration of measures in favour of channelling intraregional exports through the Clearing House will contribute to the necessary correction of this "anachronistic" situation.

4. Settlement of balances

Up to May 1992, the balances due under the CHCAS clearing system were paid regularly, but since December 1992, significant payment arrears amounting to almost US$ 31 million have unfortunately accumulated.

These arrears, which are a new phenomenon in the CHCAS and which threaten to paralyse it, were the subject of a Settlement Protocol between the creditor and debtor central banks in October 1993.

We take the opportunity provided by this meeting to declare that this problem of arrears in the payment of clearing balances experienced also by other

Clearing Houses, is today, in a time of economic difficulty for African countries, which are almost all suffering from structural balance of payments deficits, a "thorn in the flesh" of the clearing and payments systems, threatening their existence, and which must therefore be removed.

The CHCAS, which has been confronted with this situation for more than a year, strongly wishes, looking beyond the bilateral arrangements made between debtor and creditor Central Banks, to benefit from the experience of other Clearing Houses in the matter and, above all, wishes to see the Coordination Committee on Multilateral Payments Arrangements and Monetary Cooperation among Developing Countries, examine this problem in order to find realistic ways of solution.

This is a crucial problem which is at present paralysing the operations of certain Clearing Houses. It deserves particular attention in our present meetings because the very existence of clearing and payments arrangements depends on it.

5. Modalities of institutional cooperation among African and Latin American clearing and payments arrangements

Item 5 of the annotated agendas of the 8th session of the Coordination Committee on Multilateral Payments Arrangements and Monetary Co-operation among Developing Countries and of the 2nd Conference of Governors and Senior Officials of Central Banks of Latin American and African Countries on South-South Trade Expansion, reveals that this question was submitted to the Committee on Multilateral Payments Arrangements and Monetary Co-operation among Developing Countries at its 7th session, held in December 1990 at Las Palmas.

The Coordination Committee will shortly report to participants on its proposals for multilateral payments mechanisms between African and Latin American countries.

Without anticipating the conclusions of this report, it is worth stating that institutional cooperation among Clearing Houses is clearly of value.

In my humble opinion, it would mean, in the first phase, setting up a legal framework for consultation and agreed action by Clearing Houses.

The aims to be achieved could be summed up as follows:

- regular exchange of information and experience among Clearing houses (e.g. by issuing a liaison newsletter);

- alignment as far as possible of the rules and regulations governing operations;

- organization of awareness-raising campaigns, bringing together the economic operators of different subregions or continents in order to bring home to them the advantages of clearing systems;

- establishment and maintenance of permanent functional and technical links among the Clearing Houses, based on existing trade relations among different subregions and countries;

- participation in every deliberation and study on clearing and payments arrangements.

Considering the increased possibilities of internal financing that may result from the appreciable sums accrued periodically by the clearing mechanisms as a group, and with the confidence that could bring to external fund-raising, this instrument of cooperation among clearing houses should in particular set up a guarantee fund that could help finance, at least in part, subregional deficits or central bank debit balances in the clearing systems, applying the strict rules of conditionality that would be formulated.

Naturally, it would be necessary to avoid transferring the payments arrears on clearing balances accumulated within subregional payments arrangements to inter-Clearing-House settlements. In our view, that would be one of the basic conditions for the success of financial cooperation between African and Latin American Clearing Houses.

In conclusion, there are indeed opportunities for South-South trade expansion through the African and Latin American Clearing Houses, as shown by the statistics compiled in table 4 of the document on "Institutional Cooperation among African and Latin American Clearing and Payments Arrangements"[4], but every effort must be made to guarantee the payment of debts between the Clearing Houses in order to maintain healthy and durable monetary cooperation among the Clearing Houses.

For the African Clearing Houses, this would be a prologue to the establishment of the African Payments Union envisaged by the OAU in the Lagos Plan of Action and Final Act.

[4] UNCTAD/ECDC/237, 4 February 1994.

Recent developments in the West African Clearing House

by Cheikh Saad-Bouh Diao
Executive Secretary

1. Introduction

Established in 1975 with operations commencing in 1976, WACH transactions increased progressively until 1984 when they attained their peak before commencing a downward trend. However, since 1991, we have been witnessing a market improvement.

2. Main causes of this decline

Heavy debts resulting from balance of payments problems and the external debts of certain debtors, discouraged creditor countries from utilising the system.

Very wide variations in the rates of exchange between the various member countries forced operators to prefer cash transactions (parallel markets, where the rates are determined by market forces), consequently, to operate outside the official channels.

The relatively weak and poorly-developed banking system in several countries accounts for the fact that very few commercial banks have correspondents within the sub-region, which prevents commercial transactions going through WACH. This absence of correspondent relationships explains why letters of credit are often confirmed in Europe, even for sub-regional transactions which not only delays the transactions but increases costs.

- Differences in monetary and banking policies have also complicated the procedures for utilising the system.
- Ignorance about the system by the business community as well as among bankers.
- The multiplicity of currencies and the existence of a group of countries with a convertible currency, and on which all operators tend to focus, which, in turn, has fuelled the informal sector.

2a. The existence of tariff and non-tariff barriers

The regional financing of trade has suffered through the lack of credit facilities as the existing ones are administered in such a way that the real interest rates have been negative because of galloping inflation which does not encourage savings.

The potential for intra-regional trade has diminished because of the existence of duplication in industrial activity in the sub-region (import-substitution industries, lack of co-ordination in industrial policies, absence of complementarity between industries). Moreover, there is information in the sub-region regarding trading opportunities). Moreover, there is information in the sub-region regarding trading opportunities. Importers are unaware of supply possibilities while exporters refuse to seize the initiative to really promote their goods.

Apart from the lack of adequate telephonic infrastructure which affects the movement of goods and the circulation of information, the high cost of locally produced goods have constituted a major obstacle on account of:

- the absence of competition
- the overvaluation of exchange rates
- the absence of an economy of scale

- inexperience in the area of export trade

3. *Solutions envisaged*

Aware that the payments and clearing mechanism has been functioning in slow motion, for the simple reason of a decline in trade between countries, combined with heavy indebtedness as well as a general economic morass, the various States have decided to reinforce their economic cooperation through efforts aimed at promoting economic growth and redoubling their effort to revive intra-zonal trade by:

- the elimination of obstacles and barriers to trade (tariff and non-tariff barriers)

- the elimination of monetary and financial obstacles.

4. *Current situation*

a. *Payment arrears*

Rescheduling protocols have been signed by all debtors and settlements have been adhered to with the exception of one country embroiled in a war. From WAUA[5] 50.0 million in 1985, arrears fell to WAUA 15.0 million as at 31st December 1993.

a1. *Clearing*

The ratio of clearing to gross transactions, a rough indicator of the foreign exchange savings made through the clearing mechanism, continues to decrease, thus indicating the persistently low level of official intra-regional trade. Frontier trade between States really exists, but it is dominated by petty traders who do not utilise the official channels, hence encouraging the development of parallel money markets which seriously affect the foreign exchange reserve position of the countries and their fiscal policies.

b. *Economic situation of various countries*

Reforms in the real and monetary sectors have been undertaken here and there, thus allowing for the encouragement of a new economic dynamism. In certain countries also, deregulation of the monetary and financial sector has either been introduced or maintained. In terms of public finance, several countries pursued austerity policies aimed at reducing or controlling public expenditure and increasing budget income by expanding the tax base as well as improving collection. The poor performance of the external sector has persisted owing to the decline in the prices of the main export products, while the structural adjustment programmes (SAPs) continued to aim at realising an adjustment in rates and a liberalisation of trade.

c. *Prospects for WACH*

c.1 *Transformation into an autonomous specialised agency of the Economic Community of West African States*

In accordance with decision A/Dec4/7/92 of the Conference of Heads of State and Government - WAMA (West African Monetary Agency), WAMA's objective will be to play a more effective role in the regional monetary integration process, particularly the creation of a single currency by the

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[5] West African Unit of Account, equalling 1 Special Drawing Rights of the IMF.

year 2000. It will be a useful forum for exchanges between Central Banks where they could formulate pertinent recommendations regarding ways of giving a fresh impetus to economic and monetary integration of the sub-regional. This would therefore necessitate a clear desire for the harmonisation and coordination of macro-economic policies in the monetary, budgetary and exchange rate fields.

c-1.1 Monetary Area

- Provide adequate financing for the private sector;
- liberalise credit, create indirect instruments to attain this;
- interest rates should be determined by market forces;
- mop up excess liquidity as a way of stabilising prices while allowing room to manoeuvre to enhance growth;
- control inflation.

c.1.2 Budgetary area

- Reduce budget deficits to levels compatible with the levels required for price stability;
- fix ceilings for the monetary financing of deficits;
- eliminate the arrears of payment on domestic debts;
- gradually reduce the debt servicing.

c.1.3 Exchange rate

- Exchange rates ought to be determined by market forces;
- removal of restriction on current transactions and sub-regional payments;
- nominal rates of exchange should be as close as possible to the middle market rates, in order to guaranty limited convertibility of the various currencies and facilitate the liberalisation of exchange controls thus neutralising the informal sector.

c.1.4 Other aspects

To the above should be added policy issues such as:

- the harmonisation of SAPs already adopted by countries;
- the autonomy of Central Banks;
- rationalisation of the functions of inter-governmental organizations;
- the liberalisation of capital transactions in order to facilitate the creation of regional capital markets.

It is undeniable that the success of the integration process will, in effect, depend on the significant strides made along the path to the adjustment of the economies of member countries and the gradual realisation of effective convergence of national policies.

C.2 Current status of WAMA

* **Ratification of the protocol** ... under way.

* **Agreement** ... preparation well advanced.

*** Financial Implications** = these are being studied together with the modalities for contributing to the budget.

* Two studies financed by the UNDP and covering:

- the utilisation and acceptability of national currencies in intra-regional trade and settlement of trade transactions within the ECOWAS zone; and

- the macro-economic indicators for convergence to be adopted in the application of monetary and fiscal policies by member States in the context of the monetary cooperation programme of ECOWAS were discussed and necessary amendments made.

c-3 Credit Guarantee Fund

The purpose of this fund will be to ensure a prompt solution, to the benefit of creditor banks, to the temporary problems of payment, so that intra-regional transactions will remain at their optimal level.

The study is in a very advanced stage and negotiations with the European Union should reopen in the course of 1994.

c-4 WACH Travellers' cheques

- Their implementation is dependent upon that of the Credit Guarantee Fund.

- The objective will be to revive trade between member states.

- The design, practical modalities for issue, circulation and accounting treatment have already been clearly defined.

Recent Developments in the Arab Monetary Fund and the Arab Trade Financing Facility

by *Mohamed Hamid Elhag*
Economist, Arab Monetary Fund[6]

I. The Arab Monetary Fund

1.Background

The Arab Monetary Fund (AMF) was established in 1977. All members of the League of Arab States, with the exception of Djibouti, are currently members of the Fund. The main purpose of the Fund set forth in its Articles of Agreement, is to help lay the monetary foundation for Arab economic integration, and to promote economic development of member countries.

The Articles of Agreement specify several objectives including, inter alia, the provision of balance of payments support and credit facilities to member states, the stabilization of exchange rates among Arab currencies, the development of Arab financial markets and the provision of training and technical assistance to member countries.

Following a thorough review of needs of member countries, changes in Arab and international economic environment and means at the Fund's disposal, priorities were restructured to give prominence to the following areas:

a) Promotion of intra-Arab trade where the Fund's efforts were crowned with the establishment of the Arab Trade Financing Program (ATFP) in 1989.

b) Support of economic adjustment and structural reform efforts in member countries.

c) The provision of technical assistance and training. To better achieve its goals in this field the Fund established in 1988 its "**Economic Policy Institute**".

d) A program for the development of Arab financial markets.

e) Promotion of monetary and economic co-operation amongst member countries.

2. Developments in Arab Trade with Developing Countries

The share of Arab countries' trade with developing countries in their overall external trade, experienced an increase during the period 1982-1992.

The share of exports to developing countries rose from a level of around 26 per cent of overall Arab exports in 1982 to around 29 per cent in 1992.

The Arab imports from developing countries expanded at a more pronounced pace, rising from a level slightly less than 16 per cent to over 21 per cent in 1992. This rise in import share could be attributed in part, to the growing importance of the emerging economies of East Asia as a source of supply of manufactured goods, and to the fact that an increasing number of Arab countries have opted for opening up their economies and liberalizing trade, as an integral part of far-reaching reforms. The countries of the Cooperation Council of the Arab States of the Gulf (GCC), on the other hand, impose in essence no restrictions on trade.

Intra-Arab trade experienced a modest increase during the same period, with its share in overall Arab trade rising from the 7-8 per cent level of 1982 to 8-9 per cent in 1992.

[6] The views expressed here are not necessarily binding to the Arab Monetary Fund.

Arab exports to developing countries consist of crude oil and refined petroleum products which represent the bulk of those exports, in addition to raw materials, petrochemicals, fertilizers and various other manufactured products. Imports are composed of agriculture and food products, manufactured consumer goods, chemicals and a limited range o capital goods.

Nevertheless, the expansion of Arab trade with developing countries, is limited not only by the relative narrowness of the production base in most developing countries, and similarities in economic structures, but also by the lack of support services vital to the expansion of this trade. In particular, inadequacies are manifest in the fields of: trade finance and credit guarantees; communications and regular shipping lines; marketing; and trade information services.

The Arab Trade Financing Program (ATFP) was established to provide some of these services in an Arab context. An African Export-Import (EXIM) Bank was recently established to pursue similar objectives in the African region. Strengthened co-operation and co-ordination between these two, and clearing houses and similar institutions in developing countries, concentrating on feasible and practicable measures, could pave the way for a higher level of trade relations between the different regions of the developing world.

It is worth mentioning as a conclusion to this section, that the Arab Monetary Fund's efforts to forward the interest of its members with respect to issues related to multilateral trade, were rewarded by the decision of the Council of the General Agreement on Tariffs and Trade (GATT) Representatives in December 1993 to grant the AMF observer status at both the GATT Council and the meetings of contracting parties. This will enable the Fund to effectively co-operate and co-ordinate efforts with Arab members of GATT, as well as other developing countries, to defend their interests in the international trade arena, especially with regard to protectionist measures adopted by developed countries in the face of exports from developing countries.

3. Currency Convertibility

As part of its continuing efforts to support economic adjustment and structural reform programs implemented by member countries, the Fund, jointly with the IMF Institute, sponsored a Seminar on Currency Convertibility. The Seminar which was held in Marrakesh, Morocco during the period December 16-18, 1993, was attended by representatives of 12 Arab countries in addition to the AMF and IMF. Seven papers were presented to the Seminar with the following titles:

1. Currency Convertibility: Concepts and Degrees
2. Current Account Convertibility: Anachronism or Transition
3. Experience with Exchange Controls in the Arab countries
4. Morocco's Experience with Convertibility
5. The Issue of Capital Account Convertibility: A Gap between Norms and Reality
6. Towards Currency Convertibility: A comparative study of the experience of Morocco, Tunisia, Jordan and Egypt.
7. The Tunisian Experience in current Account Convertibility.

These papers and the proceedings of the Seminar will be published later this year in English, French and Arabic.

The papers threw light on the concept and the different aspects of convertibility, indicating that convertibility is a relative concept with many different degrees.

A distinction was drawn between soft convertibility, referring to that with a flexible exchange rate, and hard convertibility that is one with a fixed exchange rate (e.g. the exchange rate mechanism of the EU until recently).

The Seminar highlighted the requirements for convertibility, which include: an appropriate exchange rate level; an adequate level of international reserves; balanced macroeconomic management by adopting in particular sound fiscal and monetary policies that remove the imbalance between aggregate demand and available resources; and adherence to market discipline to reap the benefits of convertibility on resource allocation.

In a world of unprecedented economic interdependence, ascendancy of the role of the financial markets with the huge growth and globalization of financial flows, and intensifying levels of competition in goods and services markets, pressures are mounting against countries with inconvertible currencies.

Currency convertibility should help reduce distortions normally associated with foreign exchange restrictions, thereby improving resource use and allocative efficiency.

Gains in productivity and increased output levels could also be realized through the induced increase in competition, foreign investment and improved access to foreign inputs, capital goods and technology.

However, the requirements for successful convertibility outlined earlier must be present if the benefits of convertibility are to materialize. In the absence of these requirements, convertibility will put severe downward pressures on the exchange rate, unleashing the forces of inflation, and intensifying capital flight. In other words, convertibility should in essence, b viewed as an outcome of sound macro-economic management.

Although the clearance aspect of clearing houses and similar arrangements performs a useful role in enhancing trade transactions, should not necessarily be identified with moves towards convertibility.

Such arrangements, as is well known, have long existed before the current drive towards convertibility has gained momentum in an increasing number of developing countries. In some cases, they might have even been viewed as an alternative to the adoption of the difficult policies needed for restoring viability to the balance of payments and external accounts.

However, under certain circumstances, regional payments arrangements could indeed be viewed as a transition stage towards full convertibility. This is so, for example, when it is being clearly stated and observed that outstanding balances are settled in hard currencies. In this respect, the presence of a capital fund backing the arrangement, by providing credits is of great value.

In conclusion, it appears that, the drive towards convertibility has become almost irresistible in a rapidly converging world economy with mounting levels of competition. Countries with financial imbalances, that fail to take this into account and keep postponing the restructuring of their economies, face the danger of being left behind. Having said that, one would also like to add that payments arrangements have still a very useful role to play in promoting trade between member states, once reforms compatible with changes in international economic environment are incorporated in them.

II. The Arab Trade Financing Program (ATFP)

1. Background

Following years of intensive efforts to identify and devise an appropriate mechanism to contribute to the financing of intra-Arab trade, the AMF, in collaboration with other Arab financial institutions, established the Arab Trade Financing Program (ATFP) in 1989. ATFP is an independent entity, and in particular, has the right to own, contract and litigate. It aims at promoting Intra-Arab trade through the provision of refinancing facilities, in addition to services conducive to the enhancement of the volume of this trade.

The resources of the Program are composed of its authorized capital, its reserves, and deposits placed with it. These resources could be enhanced by borrowing from financial markets or any other sources within the limits set by the Program's General Assembly. The authorized capital of the Program is five hundred million dollars. The Arab Monetary Fund contributed 250 million dollars or exactly half that amount. The rest is paid by a group of Joint Arab financing institutions, public financial institutions and banks in Arab countries, as well as a number of joint Arab foreign financial institutions.

The ATFP financing, which is provided in convertible currencies, is restricted to goods and associated services of Arab origin, excluding crude oil, used goods, re-exported goods and any other goods that might be added by the Board of Directors.

The Program operates through national agencies designated by Arab countries. It provides to these agencies, refinancing facilities that take the form of lines of credit. Refinancing covers post-export financing, pre-export credits and eligible imports.

The periods of refinancing are determined by the Board of Directors, and could extend up to 5 years depending on the goods in question.

2. *Financing Operations*

ATFP started its financing operations in 1991. The repercussions of the Gulf crisis reduced activities to a modest level. Operations picked up considerably in 1992 when the Program received 74 requests from its accredited national agencies in different Arab countries, for the refinancing of export and import transactions with a total value of some 200 million dollars. This far exceeded the 59 million dollars requested in 1991. Lines of credit of a value of 128 million dollars were approved in 1992 against 40 million dollars in 1991.

In 1993, the Program received 60 requests from the national agencies with a total value of 139 million dollars. The reason for the decline in the number of requests is explained by the fact that a considerable part of the 1992 requests did not satisfy eligibility conditions for the Program's finance, and were not backed with guarantees acceptable to the Program. (More on the question of guarantees later). Thus, it could be argued that in 1993 national agencies became better acquainted with the rules and procedures governing the ATFP lines of credit, eliminating the requests that are not eligible for finance from the Program.

It is worth mentioning that all national agencies remained current with payments due to ATFP, and no arrears were registered.

The ATFP lines of credit financed a wide range of items including agriculture and food products, raw materials and intermediate goods, petrochemicals, manufactured consumer goods and capital goods.

Turning now to the question of guarantees, the ATFP has fully realized from the beginning that the sustainability and expansion of its financing operations, require the presence of adequate guarantees.

Initially, it was considered that the "Inter-Arab Investment Guarantee Corporation" would be able to provide guarantee cover for all operations financed by the Program. Consequently, an agreement was signed with the Corporation to this effect. However, it turned out that the Corporation does not, at present, have the capacity to cover all ATFP's operations. The Program now deals with it on a case by case basis.

As a result, the Executive Board of ATFP decided on the diversification of acceptable types of guarantees. The ATFP now conducts thorough risk analysis and, as a consequence, tends to accept guarantees from the following:

i) Certain Arab central banks.
ii) A number of national export guarantee agencies.
iii) Various types of guarantees issued by commercial banks.

The ATFP also looks forward to co-operation with the newly established "Islamic Investment and Export Credit Guarantee Corporation". It is worth mentioning in this context, that the recent moves towards currency convertibility in a number of Arab countries, including declared current transactions convertibility in Morocco and Tunisia, and de facto convertibility in Egypt and Jordan, have favourably affected the types of guarantees required from national agencies in these countries, eliminating the need for relatively costly arrangements.

3. *Intra-Arab Trade Information Network (IATIN)*

Recognizing the importance of providing dealers in intra-Arab trade with reliable and timely information on markets, goods, specifications and opportunities for trade, ATFP with valuable support from UNCTAD, UNDP and the International Trade Centre (ITC), established IATIN.

Over the past two years, the first and second phases of IATIN were completed. These included the "Intra-Arab Trade Information System (IATIS)" and the "Trade Opportunity Monitoring System (TOMS)", as well as the development of an effective mechanism for identifying sources of information, and the compiling, processing and storing of data for use by Arab traders.

IATIS is composed of specialized programs for Trade data and information processing, including inter-alia, data base programs for goods, companies, markets and trade statistics.

TOMS is designed to store, process and transmit trade opportunities at the Arab regional level.

The third and final phase of IATIN, which is expected to be completed by the end of 1995, involves linking IATIN Centre in Abu Dhabi with selected contact points in all Arab countries that have the required technical facilities. These contact or linkage points will relay trade information to dealers active in Arab trade.

In order to expedite the execution of IATIN third phase, a priority plan was adopted, to complete in 1994, experimental linking of IATIN with 5 national agencies carefully chosen as suitable linkage points.

4. *Other Activities in Field of Trade Services*

The ATFP, together with the Arab Monetary Fund and the UNDP, held a regional meeting on technical co-operation in the field of Arab Trade Promotion. Representatives of 18 Arab countries, in addition to Chambers of Commerce and Industry and Centres for Export Promotion, participated in the meeting. The meeting was held from 5 to 6 April 1993 in Abu Dhabi. The main focus of the meeting was the study of the findings of the report prepared by a United Nations Mission, on areas of technical co-operation in the trade sectors of Arab countries with the aim of identifying priorities, and the examination of the role of concerned Arab and regional organizations in implementing it.

Participants welcomed the emphasis placed on enhancing support services for Arab Trade, and the creation of an enabling environment conducive to the expansion of Intra-Arab Trade. The meeting endorsed the projects proposed by ATFP for future co-operation with UN bodies which include:

i) The implementation of the third phase of IATIN.
ii) A project to enhance efforts to promote trade between arab countries, through organizing meetings that bring together exporters and importers of different goods.
iii) The provision of technical assistance especially in the field of upgrading banking practices related to trade finance in Arab countries.

India's Recent Experience with Currency Convertibility

by *Michael Debabrata Patra*
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Convertibility as an objective forms a subset of broader macro-economic goals such as liberalisation and openness. The approach to convertibility needs to be sequenced with, first the entrenchment of preconditions. There is also the need to recognise that reforms are a cumulative and incremental process and that the pace of progress in this direction cannot be too slow. All through these is the need to establish the credibility of the reform process. In this area, there is the need for authorities to share with the market a common set of expectations. This can help to smooth out destabilising eddies and whirlpools which can occur in the absence of full information and which can jeopardise the very move to convertibility.

India went through an unprecedented payments crisis in 1990 and 1991. In many ways, the crisis was different from the terms of trade shocks known in earlier years by oil shocks. It was a collapse of the capital account, with access to capital markets shut out by downgrading of credit ratings and international banks reducing exposures to achieve capital adequacy norms. At the same time, trade diversification, which was necessary due to the collapse of the Soviet Union, was impeded by recession in industrial countries. There was no time to lose. An important element of adjustment was to establish both internal and external credibility. The avoidance of defaults, strong macro-economic policies and the complete revamping of the mindset became critical. As a result, structural reform and adjustment had to be undertaken simultaneously. It was dangerous but unavoidable.

A tight monetary policy set the stage for adjusting the exchange rate to an appropriate level. The exchange rate adjustment enabled trade and industrial reform which essentially consisted of the removal of quantitative intervention. This was all set against the backdrop of fiscal correction. The real move was to a dual exchange rate which relieved the pressure on the reserves and also put a larger volume of transactions into the hands of market operators. A dual exchange rate however may bring in resource allocation distortions so the next step was unification of rates. The experience has so far been good. Reserves are at $13 bn. We have a nearly convertible currency now.

All through there has been no contradiction between the move to convertibility and regional arrangements. In India, all transactions are treated in par with transactions within the IMF.