

Recommendations of Kazakhstan and Central Asia to the G20 Summit (London, 2nd April 2009)

II Astana Economic Forum
under
the Patronage of the President of the Republic of Kazakhstan Honorary President of
the Astana Economic Forum

Recommendations

**by the participants of the II Astana Economic Forum
held on 11-12 March, 2009 for the G-20 Heads of States
(Astana, March 12, 2009)**

The crisis lessons: a radical reversion of the economic paradigm

We, the participants of the II Astana Economic Forum, held on 11-12 March, 2009 in Astana and which brought together the leading scientists of the world, including the Nobel Prize winners in economy, Heads and experts of Ministries of Economy, the leading transnational corporations of the Eurasian continent, international political and financial institutions, hereby support the ideas of the President of the Republic of Kazakhstan N.A. Nazarbayev concerning the need of the fundamental reforming and systemic renewal of the world exchange and financial system and the introduction of interstate supranational payment unit.

Expressing our solutions to remedy the regional and global economy from the crisis, we share the common view that the current global financial crisis is caused by the disruption of the logical continuity in development of financial, democratic, institutional base of the global economic system.

We believe that the conflict between the global governance principles and the new quality economy has led to the destabilization of investment banking institutes; country defaults; unprecedented growth in government intervention into the market operation; fall in confidence to the world economic regulators.

Considering the current crisis as a result of functioning of the imperfect system of the world currency and capital, we support the drastic refreshment of the monetary and financial system and fundamental economic paradigm that allow extension of horizons of the new world economic order.

In this respect, we strongly believe that generating the crisis solutions should be the task not only for the world politicians and leaders, but also for the recognized intellectuals, economists, expert groups both of the national and global scale.

The open dialog platform of the II Astana Economic Forum has enabled its participants to develop the following recommendations:

1. Imperfection of the world currency and financial system and the lack of its adaptation to the conditions of the changing world were the main reasons of the cataclysms taking place at the global and regional financial markets.

There is a need for drastic renovation of the existing world currency system by means of bringing it in compliance with the main criteria of the world modern economic architecture, namely: democratic stance, competitiveness, civilization, legitimacy and reporting to the world community.

Having this in mind:

- ✓ Efforts of all the countries should be integrated to find the consensus to bring the global currency and financial system in compliance with the objectives of human development and challenges of the modern world. For this, it is recommended, under the UN supervision, to establish a discussion platform between G20 countries and other countries, whose votes were not taken into account so far during the development of the international currency and financial system;
- ✓ It is necessary to create legitimate and multilaterally acceptable for all participating countries conditions for the functioning of the world currency system. As a first step, all the countries of the world could discuss the issue of legislative consolidation of the idea to create a world currency aimed at bringing the global currency system in compliance with the fundamental criteria of the modern global economic architecture. The legitimacy of this law shall be based on its endorsement by all the participating countries – UN members;
- ✓ Once the main premises of harmonic and fair global currency and financial system are developed and the necessary level of integration and cooperation among the countries is reached, the supranational world currency should be introduced. This would provide currency and financial security in the world and thus eliminate the privileges of certain emitting countries of the main trade and reserve currencies.

2. The risks of further destabilization of the globalized world currency and financial system and its epidemic spread to the whole construction of the world order require from the world community to undertake urgent actions.

It is obvious that there is a growing need for the on-the-spot re-distribution of the load from the existing world reserve currency to the system of regional trade and currency payment units.

Such a diversification of risks through the introduction of alternative reserve currency units should become a transition stage to the introduction of the common world currency and be accompanied by unified requirements to economies of the countries whose national currencies can be used as reserve ones:

- ✓ Absence of violent fluctuations of the account balance for a long time;
- ✓ Linking of emission volumes to the net exports ratio in the GDP;
- ✓ Traditionally low rates of inflation in the country.

At the same time, the following risks should be taken into account:

- ✓ During the establishment of a common regional currency unit by type of euro, it is necessary to ensure security area without military conflicts and significant extent of political integration;
- ✓ In case of linking to a currency dominating in the region, the lack of a comprehensive plan for the introduction of the regional currency can lead to negative circumstances;
- ✓ Introduction of a single regional currency leads to the synchronization of inflation processes and business cycles, narrowing the maneuver during the implementation of the national monetary and policy by member-states.

This transformation process of the world currency and financial system should be considered together with the improvement of the world institutional structure of the interstate regulation of the world economy and the world currency system.

For this purpose it is recommended to increase the efficiency of the existing international and supranational institutions, in particular of the United Nations, the International Monetary Fund and the World Bank, as well as to create premises for the establishment of new international and regional organizations including currency and financial institutions.

3. The impact of the world financial and economic crisis is reflected in the decrease of production volumes, exports, imports, and unemployment growth, and may force countries to

refer to unpopular measures. Foreign trade protectionism, dumping, barriers in capital flow do not provide for the solution of problems related to the recovery of the world economic system from the recession, but can provoke the deepening of the crisis. The implementation of anti-crisis measures should be agreed by countries by means of the following actions:

- ✓ Creation of conditions for a free trade, extension of borders of the common economic areas;
- ✓ Joint funding of investment projects in the infrastructure sectors with strengthening the public-private partnership, establishment of regional financial systems and zones;
- ✓ Activation of cooperation between national banks and international financial institutes – the World Bank, European Bank for Reconstruction and Development, Asian, Islamic, Eurasian Development Banks and others – for the financial support of trade and economic integration of countries;
- ✓ Creation of regional anti-crisis funds;
- ✓ At the final stage of cooperation should be improvement of coordination system of currency, monetary and fiscal policies of countries.

4. The unlimited liberalization of the monetary system contributed to the creation of enormous amounts of crediting and negligent investing, creation of the system of financial markets separated from the real economy backgrounds. The man-made demand supported by the hypertrophic financial and credit system has led to the crisis of the existing model of the consumer society.

As a result, anti-crisis measures of governments of many countries in the world are directed to support the national bank systems, there are unprecedented investments of billions into this field are undertaken as well as the re-distribution of the public funds through them to other economic sectors.

The practice of the countries that have already coped with the first difficulties of the global financial and economic crisis demonstrated that the restoration of the normal credit flows to the economy requires the support of the 3 main principles:

- ✓ Increasing liquidity and funding through traditional and newly created instruments;
- ✓ Strengthening the capital base of some financial institutions according to assessments of competent authorities;
- ✓ Arranged solution of the impaired assets issues.
- ✓ Strengthening the transparency of functioning of the bank systems of these countries;
- ✓ It is also worthwhile to introduce the changes into the assessment methodology of the structure of assets and liabilities of commercial banks, condition of their liquidity, financial stability, security of their loan portfolios in the light of the

collateralized property depreciation and strengthening risks in projects that are being financed.

5. Undoubtedly, that the crisis will be overcome by joint efforts. But, in order to ensure that in future the modern world economic system can cope with such crises, it is necessary to:

- ✓ Create the system for preventive regulation of financial and trade relations on the international scene. Such a system shall prevent the up rise of serious disproportions in the capital flow, which becomes the cause of over accumulation of resources in concrete sectors and countries and ultimately leads to a crisis situation.
- ✓ Combine efforts of countries to create an international system for forecasting of future global economic, financial crises, the methodological support to an earlier risk prevention related to the cyclic economic development, taking into account the gained experience of the certain countries and international institutions.
- ✓ Activities of International Financial Institutions should be orientation not only to the long-term funding of structural reforms but also to the crisis prevention. The intellectual potential of the World Bank must be directed to the banking sector reform, the financial control system and corporate management, improving the work mechanism of rating agencies, revision of financial audit standards.

A radical change of the paradigm for further development of the world economic system and revision of existing dogmas and stereotypes are, in our opinion, the framework for a future world financial and economic system.