

# Much talk but no action on crisis

45

S 7-10-98

By CHARLES CHAN

WASHINGTON: Yak, yak, yak. That is all the world's finance ministers appear to be doing at the fall meetings of the World Bank and International Monetary Fund as the global financial crisis worsens.

To be sure, there's a deeper sense of urgency and a significant shift in opinions on what needs to be done, including proposals put forward in Hong Kong last year by Datuk Seri Dr Mahathir Mohamad which the financial community then derided as crazy.

But unless the major industrial nations, particularly the United States, show the political will, concrete action will not be forthcoming.

many countries, like Hong Kong-China, Brazil and Germany, whose ministers spoke openly for some kind of regulation governing hedge funds

World economic growth this year is expected to slow to 2% and over the next six to 12 months, the competition for funds will be intense and many countries are expected to be squeezed out.

The picture coming late on Monday night from Second Finance Minister Datuk Mustapa Mohamed, after emerging from a G-22 meeting presided for an hour by President Bill Clinton, was a grim one.

Over the next six to 12 months, he sees funds drying up, intensifying competition for foreign direct investment (FDI), short-term capital flows not being encouraged, ratings coming down, interest rates going up and access to funds becoming difficult.

"It's going to be quite tough for developing countries," he said.

In the scramble for FDI, he was optimistic Malaysia would continue to be competitive because of its political stability, investment climate and strong incentives.

What had been highlighted by the Prime Minister in the past year had struck a chord among

and highly leveraged capital flows.

"That was some comfort but from our point of view, what's important is what will come next, what action will be taken?"

"We don't see much movement yet in terms of concrete action, I don't see any reason to be optimistic at this point," Mustapa said.

He said it was important that the international community was becoming more aware of the destabilising effects of short-term capital flows, particularly in the aftermath of the Long Term Capital Management (LTCM) fiasco.

On discussions about regulating hedge funds, he detected reluctance on the part of developed countries.

"But I can hear louder voices calling for control of hedge funds and the voices are going to be louder and louder. That is a positive development."

Mustapa said that during the meeting, he took the opportunity to again explain the pre-emptive counter-measures, including capital controls, taken recently by Malaysia to regain monetary independence.