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## A friend to bridge the gap

PRIME Minister Datuk Seri Dr Mahathir Mohamad's confidence that France will promote the views of the G15 countries on the formulation of the new global financial architecture in the next G7 meeting is certainly not misplaced.

Much is at stake if the G15 members remain as bystanders or are marginalised in any initiative to restructure the present financial regime. Still fresh and painful in the memory of many is the past action of the G7 to correct the trade imbalance with Japan whereby they revalued the yen and consequently, pushed up the debts of developing countries by two and a half times. There is reason to believe the G15 members will lose out in the globalisation process, resulting in extreme disparities between the rich and poor and unending web of financial crises, if their views go unheeded by the mighty G7.

The present international financial system is characterised by a high degree of centralisation in G7 countries, which account for majority of transborder capital flows. At the core of this system, entities such as currency traders and hedge funds make huge profits on speculative investments to the point of impoverishing countries. As oft-repeated by Dr Mahathir, their unregulated activities are worrisome since they are prone to undercapitalisation and faulty systems. In the Long Term Capital Management debacle, LTCM had borrowed funds to undertake investments of more than US\$200 billion on an equity base of less than US\$5 billion since there was nothing in the regulatory mechanism that limits the exposure of such institutions.

Flaws within the global capital market and unregulated cross-border capital flows in the globalisation process have rapidly spread the financial crisis in one region to other parts of the world. Such excessive volatility and strong contagion effects prove that controls over the international financial system are imperative. Countries such as Canada, Germany and Japan now see the wisdom for such controls. But such tinkering with the system cannot be at the whims and fancies of the G7. The G7 countries must work in consultation with the other developing countries. Certainly, reforms should not arbitrarily revolve around the intellectual predilections of the likes of US Treasurer Robert Rubin, the IMF's Michael Camdessus or the World Bank's Wolfensohn or those who advance the interests of the mighty few.

As Dr Mahathir puts it, France is the most sympathetic of all the European countries on the plight of developing countries. Even President Jacques Chirac shares Dr Mahathir's view on currency trading when he dubs it as "the AIDS of the world economy". France can exert her influence in the G7. It is no secret that she and her allies such as Germany's Gerhard Schroeder and his left-of-centre Social Democrat Party are already displeased with the US' high-handed unilateralism.

With Japan's pledge that it will push for an equitable use of a basket of core currencies or reasonable target zones or bands, these countries seem prepared to take on the US for a fairer system. The United Kingdom will, of course, dance to the tune of the US. But going by Tony Blair's speech at the New York Stock Exchange last September where he had called for a five-point agenda reform including a new Bretton Woods for the next millenium, there may well be a glimmer of hope for progress in reforming the global financial system.

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