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Crisis shows region must take care of itself

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A MAJOR world financial crisis is needed to prompt any reform of the global financial system, according to Eisuke Sakakibara, the adviser to the Japanese Finance Minister.

Dr Sura Sanittanont, Special Adviser to Thailand's Minister of Commerce, adds that the West can be convinced to undertake reform only when a crisis brings the roof down on all - the weak and the strong.

But Asia cannot wait for such an eventuality and needs to "arm" itself to deal with the next crisis - which will surely come along.

Sakakibara pointed out that the developed world does not see the urgency for reforms now as many of the affected economies are on the mend and the developed world has escaped unscathed.

As such, he advocates Asian regional co-operation. It is important that the region prepare and arm itself to face the next financial crisis.

Sakakibara, who was in Kuala Lumpur recently, says the developed world is "a bit slow" and there is no urgency among them to build a new financial architecture.

In part, this is because the rules of the game in the financial world are biased towards Wall Street and due to the number of people there with vested interests in maintaining the status quo.

Then again the "crisis is over" and there is no sense of urgency in the west for reforms. But "Asian countries cannot wait".

While the developed world, members of the Washington Consensus, fund managers and others continue to demand and lecture developing and crisis-hit countries on the need for reform, liberalisation and transparency, yet they themselves are not prepared to reform the world financial system that is clearly in need of urgent reform and transparency.

The recent crisis, which Sakakibara argues was not "an Asian crisis" but a "crisis of global capitalism... will hit us again" because of the "inherent instability" of what he calls "cyber capitalism".

Professor Thomas DeGregori of Houston University, USA, argues that the Washington Consensus is in a flux following the recent crisis and "we should use this flux to propose new ideas".

Among them, is for the region to forge ahead and set up a regional "safety net" and regional co-operation.

Sakakibara offers three options for Asia - join the US dollar club; join Europe or come up with its own regional co-operation.

He favours the third option - that of regional co-operation - which he admits will be a challenge as Asia is a "very diverse region".

In this context, the proposal by Prime Minister Datuk Seri Dr Mahathir Mohamad for the East Asian Economic Co-operation (EAEC) in the 1980s, and shot down by the Bush Administration and in particular by then US Secretary of State James Baker, should be revived.

Similarly, the AMF, which was also "killed" by the US, is another regional alternative which could be pursued.

It has been argued that if the EAEC was operational, countries in the region would have had the option of not turning to the IMF.

In fact the first recourse for Thailand, Indonesia and South Korea, Dr Mahathir argues, would not have been the IMF but the EAEC. "Much could have been done to protect the East Asian countries from the assault by currency traders on their economies.

"Certainly they could have been able to exchange information and to

devise strategies to save their economies. The AMF could have been fully discussed and suggestions made to realise it and to work out its uses and applications."

Many, including the influential Sakakibara, otherwise known as Mr Yen, say the sentiments in Japan have shifted since the EAEC was first proposed and argue that it may now have a better chance of obtaining support from the Japanese.

The case for an East Asian grouping was compelling, even when the EAEC was first proposed, and is even more critical following the recent crisis.

After all, America has its own grouping in the form of Nafta (North American Free Trade Association), Europe has its European Union and the Latin American countries have Mercusor (Common Market of South American countries). Why not an East Asian grouping?

Some may argue that there is the Asia Pacific Economic Co-operation (Apec).

But the grouping is impotent and unable to rise to the occasion. It is not designed, nor will its most powerful member allow it to come to the "aid" of developing countries.

A "talk shop", some of its members are focused more on "pricing open" markets in the name of "trade liberalisation" and "globalisation" than to pay attention to the needs of the poorer members.

In fact, Apec has succeeded in weakening Asean unity, rendering it less effective in dealing with a crisis such as the recent financial turmoil.

There is thus no effective grouping in the region and this gap needs to be filled.

The South Koreans are seeking co-operation on the trade front with Japan. This co-operation could be extended to cover other East Asian countries, including China and the Asean 10.

But Japan, the world's second largest economy, must take a lead. It needs to break the umbilical cord that binds it to the US.

According to Sakakibara, there has been a shift in the Japanese sentiment and the thinking is quite different today compared with 10 years ago "when Japan did not go along with the EAEC" proposal.

There are even more reasons now to go ahead with a regional grouping in East Asia; not only does it need to prepare to face the next financial crisis, as Sakakibara argues, but also for the fact that the region must have a forum to discuss its issues, problems, remedies and solutions as well as a negotiating position for the next world trade round.

This was sadly lacking during the Uruguay Round.

Recent events have shown that the region cannot depend on others during times of need or to provide the necessary help quickly.

Even when assistance is handed out, it caters to the needs and interests of those in developed countries who are keen to maintain the status quo.

There is thus no other option but for the region to take care of itself and its people with the establishment of a regional grouping.

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