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G15 warming up to need for revamp of financial system

Zainul Ariffin in Montego Bay, Jamaica

THE Group of 15 developing countries are no longer divided over the causes of the East Asian financial crisis, and appear to be warming up to a common position on the need for a change in the international financial system.

Recent events, including the spread of the crisis beyond Asia, as well as revelations that the unfettered actions of some highly-leveraged investors had contributed to the problem, probably convinced members on the causes of the problems.

Some members did not take to Malaysia's assertion that currency speculators were major contributors to the crisis, and instead suggested that it was purely the fault of the countries in trouble.

"Now there is a much better appreciation of the problem and its consequences and the need to have corrective measures," said Jamaica's permanent representative to the United Nations in Geneva, Anthony Hill.

Nevertheless, he said, there was less agreement on how best to deal with the problem.

Hill said a common solution was not for everyone.

He was speaking to reporters after a meeting of G15 officials here on Sunday, ahead of the leaders' summit on Wednesday.

Prime Minister Datuk Seri Dr Mahathir Mohamad was scheduled to arrive yesterday for the summit, which will see at least a dozen heads of government attending.

G15 groups Algeria, Argentina, Brazil, Chile, Egypt, India, Indonesia, Jamaica, Kenya, Malaysia, Mexico, Nigeria, Peru, Senegal, Sri Lanka, Venezuela and Zimbabwe.

At the G15 summit in Kuala Lumpur in 1997, Dr Mahathir highlighted the role of currency speculators and hedge funds in the East Asian financial crisis. However, some members were not convinced.

Hedge funds are essentially institutions that make money by taking positions on the future directions of financial instruments, be they currencies or stocks. Because they are often highly leveraged and have access to large amount of funds, they often influence the markets.

In Cairo last year, while there was recognition of the problem, acceptance of Malaysia's argument was still reserved.

A number of paragraphs of the leaders' communique commented on the harmful effect of short-term capital flows, essentially investors moving funds rapidly across borders thus destabilising the economies of several developing countries.

But this year, in Jamaica, Hill said, G15 members had all seen the consequences of the crisis and were no longer at odds with Malaysia's diagnosis of the problem.

The turning point was probably the contagion effect of the crisis that spread to countries like Russia and Brazil, he said.

Also the collapse of American hedge fund Long Term Capital Management had revealed the recklessness of such institutions' actions, as well as their far-reaching consequences on the international financial market.

In fact, in other international fora, there have been a greater acceptance of Malaysia's diagnosis of the problem.

For example, at the World Bank/International Monetary Fund meeting in Hong Kong in 1997, Dr Mahathir was roundly criticised for suggesting that the ability of market practitioners to move funds at will be curbed.

But less than two years on, it was reported that almost 70 per cent of discussions at the World Economic Forum in Davos, Switzerland a few weeks ago centred on the need to review the global financial system, especially the role of hedge funds and other market players.

On whether the G15 will have a unified stand on how to address the problem, Malaysia's permanent representative to the United Nations in Geneva Hamidon Ali said members were not expected to reach a consensus on a single approach.

He said leaders were instead expected to acknowledge that members should be allowed to address the situation as they saw fit.

Formed in 1989, the G15, is a forum to promote South-South co-operation and North-South dialogue. Its formation was driven by the desire to improve economic growth and prosperity in member countries, as well as in other developing nations.

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