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Regional financial crisis affects all G-15 nations

Mustapha Kamil

NONE of the member economies in the Group of 15 developing countries (G-15) has escaped wrath of recent financial turbulences in the world. In fact, some either were, or still are the focus of recent turmoil.

The G-15 comprise Algeria, Egypt, Kenya, Nigeria, Senegal, Zimbabwe, India, Indonesia, Malaysia, Argentina, Brazil, Chile, Jamaica, Mexico, Peru and Venezuela. Sri Lanka will be admitted as a new member at the grouping's meeting in Jamaica this week.

Mexico went through a tough capital flight period a few years ago which almost wrecked its economy, and one which also affected neighbouring G-15 nations such as Argentina.

In the Asian financial and economic crises beginning 1997, Indonesia and Malaysia have been the G-15 members most affected and this followed closely recently by Brazil which is now also grappling with a currency issue.

Effects of these regional crises are however not limited to developing economies alone. The increasingly globalised economy have prompted spreading of the turmoil, threatening among others traditional markets for products of the developing economies and providing an additional burden for them.

It will be against these mounting challenges that G-15 Ministers and leaders will meet in Jamaica's Montego Bay.

There has been no shortage of efforts in trying to explain causes of and recommend remedies to the crises and views expressed have been largely dependent on from where they were expressed from.

Central to these discussions have been the issue of financial globalisation itself although differing opinions still exist between the developed and developing states on what aspects of globalisation has been the root to the presently uncertain global economy.

For one, there has been a growing realisation that the preparedness of the developing economies for globalisation is still a questionable subject.

The Asian financial crisis has raised fundamental questions concerning risk of premature capital account liberalisation and underscored the difficulties faced by emerging markets in absorbing large international capital flows.

Economists analysing the Mexican, Asian and Brazillian crises said each of them were preceded by a surge of capital inflows into developing economies following sharp improvements in the terms and conditions for them to access the global market.

Between the first oil crisis of 1973 and 1982, there were huge amount of capital flowing around the world as oil revenues were recycled. During that period, net private capital flows to emerging markets, mainly in the form of syndicated loans, was estimated to total US\$165 billion (US\$1 = RM3.80), attracting large scale borrowings by ambitious Asian and Latin American entities.

The Mexican and the present Asian crises were also preceded by record capital inflows. Total net private capital flows to emerging markets between 1990 and 1996 soared to US\$1.04 trillion or about 3 per cent of their GDP.

Asia and Latin America were the largest recipients of the flow, absorbing 40 per cent and 30 per cent of the total respectively.

Unfortunately, it was only recently that world financial authorities such as the International Monetary Fund (IMF) and the developed states realised the need for some form of control in the movement of capital around the world. And although an idea generally scoffed at initially, even the developed states have begun to realise the damning effect of globalised economy-related practices such as non-trade related currency trade and excessive freedom in the movement of capital.

This however, is not to say that developing economies including G-15 member states have been free of shortcomings in the past. Of prime importance would be for them to strengthen their banking systems and to improve on corporate governance and transparency in economic policies. While there has been an increase in convergence of ideas on approaching the issue between the developed and developing economies, the latter has an additional challenge to face.

It has to be ensure that as there has been greater efforts by the developed states to restructure the global financial framework, interests of the developing economies are not sidelined.

There have been numerous calls by western analysts, economists and Governments for the developing economies to open up their markets more as a pre requisite for a more stable financial and economic environment, or so they say. Developing countries, G-15 members included, must examine such ideas carefully.

In that respect, it would be an opportune time for the G-15 to project its aspirations, less interests of the developing economies would continue to be sidelined in whatever new financial framework the world may come up with and also in the much pursued globalised economy.

A solid stand would be required from the Jamaica meeting which the G-15 can be forward in consultations it may have with the Group of 7 industrialised countries later.

Also vital would be to ensure continuity in its present initiatives as there is the danger that as member economies grapple with their domestic economic problems, the G-15 platform may be forgotten.

Already, there are signs of weakening in several of its once promising initiatives, at least in their pursuit.

Activities within the South-South Cooperation, essentially a G-15 effort to expand markets and economic horizons of developing countries, have slowed down as member economies, some albeit reluctantly, had to look inwards to nurse their domestic economy first. Malaysia has been of no exception.

Prime Minister Datuk Seri Dr Mahathir Mohamad will head the Malaysian delegation to the Jamaica meet. Other ministers scheduled to be there are International Trade and Industry Minister Datuk Seri Rafidah Aziz and Foreign Minister Datuk Syed Hamid Albar.

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