

12/02/2000

Unctad calls for measures to control 'hot money'

Hardev Kaur in Bangkok

BANGKOK, Fri: There will be a new financial crisis if multilateral measures are not introduced to control short-term capital flows, warns the secretary general of the United Nations Conference on Trade and Development (Unctad), Mr Rubens Ricupero.

Despite there being a lot of talk on the need for a new financial architecture "nothing (in effect) has been done...this is a risky situation", he said.

And with recovery being experienced by most of the region's crisis-hit countries there is a danger of complacency setting in, he told a joint press conference with Thailand's Deputy Prime Minister Dr Supachai Panitchpakdi, who is taking over from New Zealand's Mike Moore as the director general of the World Trade Organisation.

Prime Minister Datuk Seri Dr Mahathir Mohamad had identified the unbridled flows of massive amounts of short-term capital as the main cause of the Asian financial crisis in 1997.

He had called for the regulation of hedge funds as part of a solution to the problem but was accused of not understanding international finance and economics.

The dust, and the emotions, have since settled but not before the global financial system was almost brought to its knees by the near collapse of the US-based hedge fund Long Term Capital Management.

Ricupero said in the present circumstances it is crucial for economies, especially the developing ones, to guard against short-term indebtedness.

Unctad's view, he added, is consistent with that of all other international agencies including the International Monetary Fund (IMF).

Speaking ahead of the 10th Unctad meeting which begins in the Thai Capital tomorrow, Ricupero said the challenge is to contain the negative effects of "hot money" which can put pressure on a country's currency, for example causing it to become "too overvalued and Unctad calls for measures to control 'hot money' affect export prospects".

Asked how he proposed to "tame international financial flows", he said controls are necessary not only in the recipient countries but also at source.

On Malaysia's selective capital controls, which the IMF initially slammed as a step backwards for the country, Ricupero said: "The IMF (now) recognises that Malaysia's measures are useful in extreme circumstances but not as a normal therapy."

The Bretton Woods institution is in fact moving towards the view held by Unctad on "the use and usefulness of controls".

Unctad in its Trade and Development Report 1998 was among the first multilateral organisations to acknowledge the need for capital controls.

As for controls of capital flows in the country of origin, he said that the problem is not so much with technical feasibility but the (international) financial markets.

This is despite the fact that these controls would be no different from what regulatory and supervisory authorities are already doing with domestic financial institutions, that is intervene when the banks are deemed to be taking too much risks, he said.

(END)