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About-turn in US position

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"IT IS quite an irony," according to Eisuke Sakakibara, Japan's former Vice-Finance Minister for International Affairs, for the US to urge "controls" on funds in its "war of terror".

America was in the forefront in urging the free flow of funds and pushed for the opening up of offshore markets even at the height of the East Asian crisis.

Now it has not only imposed controls but has urged other countries to follow its lead in freezing assets and funds of terrorist suspects.

The London-based Financial Times points out that "The broad sanction powers represent a sea change in the US administration's approach to financial regulation and multilateral agreements.

"Before the terrorist attack, Washington opposed international threats to impose sanctions on tax havens that refused to share information with the US." Its response to tackling financial crime and money laundering was at best lukewarm.

In 1997-1998, at the height of the East Asian Financial crisis, the "US adamantly refused" to even agree to monitoring short-term funds. There was strong opposition from the US and the International Monetary Fund (IMF). The argument then, among others, was that market forces, globalisation and liberalisation were "here to stay" and that the free flow and movements were an essential part of the "new economy".

Prime Minister Datuk Seri Dr Mahathir Mohamad had called for monitoring of hedge funds, short-term and hot money which had wreaked havoc and destroyed the economies in the region. "Instead of reigning in the currency manipulators, they allowed them to destroy the economic tigers," Dr Mahathir had said.

"Now because of the terrorist attacks they (US) are urging a monitoring of financial flows and the flow of funds to the terrorists. They want the funds out of the system.

"It is quite a change!... At least they do not want the terrorist funds," Sakakibara said in an interview in Langkawi last week.

"Because hedge funds' financial resources are not disclosed, they don't have any disclosure requirements (but) I am sure some of the hedge funds have terrorist funds," he added.

From the Asian perspective, the hedge funds are the "pirates of the modern finance". Many of the highly leveraged hedge funds are managed secretly.

They register in offshore financial centres. When they took on the financial markets with their high leveraged speculative practices they created instability in financial systems and destroyed many developing economies.

The pleas of developing countries were ignored. Even self help measures such as the Asian Monetary Fund (AMF) and the proposal for the East Asia Economic Caucus (EAEC) were vehemently opposed.

Attempts for a new financial architecture have been painfully slow. Indeed very little progress has been made on the need for change in the existing international financial system. There has been more talk than action as the major developed nations have been reluctant to change the status quo.

Undoubtedly changes are expected. The free wheeling and unfettered flow of funds will be reigned in following the Sept 11 attack.

Over the past month the US Treasury has frozen millions of dollars in assets of what it believes to be those of Osama bin Laden and the al-Qaeda network - named by Washington as prime suspects behind the attacks on New York and the Pentagon last month.

Off-shore finance centres are also being monitored for activities by the suspects.

The US President's executive order on Sept 24 immediately froze the US assets and transactions of some 27 individuals and groups including relief organisations.

The President described the powers as "draconian" and warned that international institutions faced the same stark choice as foreign governments - either they co-operate with the US or their assets would be treated like any terrorist funds.

"We have developed the international financial equivalent of law enforcement's most wanted list and it puts the financial world on notice", President George W. Bush had said.

"But if you become extremely legalistic and in trying to 'smoke out the terrorist funds' as President Bush said, you certainly will shrink the size of the international financial system," Sakakibara, who is also known as Mr Yen, said.

This will have an impact on and change the nature of capital flows in the world.

The international financial system has had some kind of anonymity. The Swiss banks have numbered accounts. These numbered Swiss accounts have been used for various reasons and, according to Sakakibara, "part of that may be terrorist funds and part of it may be for tax evasion". But that has been the international financial system for the past 50 to 60 years.

"Are the Americans going to change that? Are they trying to change it?... At least people in the Pentagon want to change that.

"But do the people in Wall Street want to change it?" he asked.

Nevertheless the moves to freeze the funds and assets will definitely have an impact in changing the nature of capital flows in the world. The free wheeling in the global market is now denied.

"It is a very ironical aspect of US policy... that the US is pushing for controls. This will mean a change in globalisation as we have come to experience during the course of the last decade or so."

The tide seems to have changed in favour of controls and whether that will result in a change in the IMF and the World Bank, according to Sakakibara, is still uncertain. "But the mood of the world has definitely changed.

"If you replace your Prime Minister's attack on hedge funds by the American attack on terrorist funds, it is the same thing. Not only your Prime Minister but US Secretary of State, Colin Powell, is now calling for the same thing."

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