

NORTH- SOUTH Dialogue NEEDED IN Asian Financial Crisis

By Gamani Corea

THE CENTRAL FACT IS THAT ASIA BECAME VERY DEPENDENT ON FOREIGN INVESTORS, WHOSE CONCERN WAS NOT WHETHER A COUNTRY HAD ITS FUNDAMENTALS IN ORDER, BUT WHAT OTHER SPECULATORS WERE THINKING. THIS CREATED A VERY VOLATILE SITUATION AND ULTIMATELY A CHAIN REACTION OF CRISES.

COLOMBO, Jan. (IPS) - The explanation frequently cited in the international media for the Asian financial crisis—poor economic “fundamentals”—simply is not convincing.

It is implausible that the Asian “tigers” could have sustained rates of expansion so high and for so long, nearly transforming their economies, while all the time the so-called “fundamentals” were not right. Certainly there were weaknesses and excesses, but these were not so common as to cause a re-enactment of this crisis in country after country.

If anything was wrong, it was the fact that the nations exposed themselves excessively to footloose speculative movements of capital, and to short-term capital flows, with no regulations or control mechanisms set up in advance. This was partly because of the prevailing philosophy of openness to all kinds of financial flows.

For many years this produced positive results and people applauded. But the immediate causes of the current crisis has not been an over-investment in real estate, or the corruption and crony capitalism, that we read about—which are to be found in all the economies in the world, not only in East Asia.

The central fact is that Asia became very dependent on foreign investors, whose concern was not whether a country had its fundamentals in order, but what other speculators were thinking. This created a very volatile situation and ultimately a chain reaction of crises.

One of the major lessons to be drawn from the present situation is that there is appalling absence of any kind of mechanism to moderate and regulate these developments once they appear to get out of hand.

There is no “ex-ante” preventive system internationally to monitor the situation,

anticipate possible weaknesses and take action. Instead there is an ad hoc and "ex-post" response.

Unfortunately any kind of preventive regulation by governments, or even by international organisations, is considered contrary to the prevailing liberalisation philosophy. The result is a very large exposed and vulnerable economic area.

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If there is to be an international legacy from this crisis, it should be the establishment of mechanisms to monitor and react in time. This should top the list of the agenda for the evolution of the international financial system.

There are other issues. One of the casualties of the great euphoria about globalisation and liberalisation has been the debate on international development cooperation: there have been no serious negotiations on a North-South basis for the last 15 years!

All the changes for which the South has been pushing—tariff preferences for developing countries, concessional aid targets, commodity stabilisation arrangements, codes for the transfer of technology and restrictive business practices—have been put aside. As a result, the whole burden of action, and virtually the whole focus of attention, is now being placed on the internal domestic policies of developing countries.

Developing countries are told that now there is an express train called "globalisation and liberalisation." If they get aboard, they will be carried on a great distance but, if they fail to do so, they will be left behind and marginalised.

The secret of boarding is in their own policies: if they liberalise, deregulate, privatise, balance their budgets, and so on they would be beneficiaries of the process.

The North-South dialogue thus has been replaced by a sort of "do-it-yourself kit" for developing countries—who are told that they don't need big discussions and conferences on international cooperation, aid flows, the terms of trade and so on.

Nevertheless, it remains as true as ever that developing countries need a global economic environment that is supportive of the development process and stability in the world economy. This will not come about through the country-by-country implementation of internal structural adjustment policies alone.

There are major issues that can only be addressed through multilateral actions, and a revival of discussions and negotiations on these is clearly needed. One of these is the international financial system and the way it should evolve. This must be the subject of inter-governmental actions rather than of national policies alone.

There also are other issues: trade, capital needs, debt relief, regionalism and global environmental concerns that involve an inter-dependent world and, effect both developing and developed countries.

The present situation presents developing countries with a challenge: they must reshape their platform to reflect the changing world scene. They need also to harness their numerical strength and cohesiveness in multilateral fora.

Otherwise they will lack an agenda of their own, and their responses to world trends and events, at best, will be reactive.

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