G-15 forges common cause vs. speculators

by Gail G. Billington

On Nov. 3-5, heads of state and ministers of developing nations in Ibero-America, Africa, and Southeast Asia met in Malaysia for the Seventh Heads of State Summit of the Group of 15 nations. The meeting focussed on so-called "free trade" liberalization and the role of speculation in targetting national currencies and financial markets, which has wiped out 25-40% of currency and market values in Southeast Asia in little more than four months.

By the end of the three-day meeting, a unanimous consensus was reached. As Malaysian Prime Minister Dr. Mahathir bin Mohamad said at the end of the summit, the currency crisis has inadvertently given the G-15 a "new lease on life," because it served as a stark reminder that no nation dare think it is immune to attack. But the text of the joint statement makes clear that the consensus still accepts the legitimacy of "globalization" and "liberalization," and the authority of the "globalizing" institutions themselves—the International Monetary Fund (IMF), the World Bank, the World Trade Organization (WTO), and the United Nations—to enforce and create a more "level playing field" in world finance and trade.

The final statement called on the IMF and World Bank to study developments in the currency markets with a view to improving regulation and transparency, called on the WTO to study the impact of currency swings on trade, and to create a more "supportive, fair, and non-discriminating international economic environment." The G-15 committed itself to develop South-South cooperation; its economic ministers will meet prior to the December WTO meeting in Geneva to craft a common stand.

The driving force moving the conference forward was Prime Minister Mahathir, who has aggressively challenged the role of speculation, and has admitted the error of believing in the invincibility of the Southeast Asian "Tiger" model. Without doubt, he is responsible for the activist approach that emerged from the summit, including convening a meeting of G-15 finance ministers and central bank governors in Kuala Lumpur on Dec. 1-2, to meet concurrently with the Association of Southeast Asian Nations finance ministers meeting. The G-15 heads of state have directed their finance ministers to meet, under Malaysia's chairmanship, to make specific recommendations on trading and currencies, including perhaps registration of currency traders and greater transparency as to the source of funds. These recommendations will then be circulated to the heads of state and passed on to the IMF and World Bank. The G-15 also decided to accelerate its own meetings, moving up the next summit to May 1998, in Cairo, because of "the urgency of matters and the rapidity in changes in the world trading system," Dr. Mahathir said. He conceded that drawing up rules on currency trading will *not* stop speculation.

South-South cooperation

The G-15 was founded in 1989 to promote trade and investment among some of the most important "emerging markets" on three continents: Algeria, Argentina, Brazil, Chile, Egypt, India, Indonesia, Jamaica, Malaysia, Mexico, Nigeria, Peru, Senegal, Venezuela, and Zimbabwe. Kenya was admitted at this year's summit as the group's 16th member. Six heads of state attended the Kuala Lumpur meeting: Algerian President Liamine Zeroual, Egyptian President Hosni Mubarak, Indonesian President Suharto, Zimbabwean President Robert Mugabe, Peruvian President Alberto Fujimori, and host, Prime Minister Mahathir of Malaysia. The remaining countries were represented by ministers.

Following the one-day trade and economics ministers' meeting on Oct. 31, there was evident reluctance, particularly among the Ibero-American delegations, to adopt tougher reforms on currency speculation, as Malaysia has suggested. The draft that emerged from the meeting made no specific suggestions, but asked the IMF and World Bank to study developments in currency markets with a view to increased regulation and greater transparency.

Argentina's Vice Foreign Minister Julio Alberto Cáceres told reporters the meeting discussed only the need to study volatility "without any qualifications." Mexico's Deputy Trade Minister for International Negotiations Jaime Zabludovsky said what was discussed was "nothing special." He added, "We are opposed to currency controls," a notion Dr. Mahathir is erroneously accused of promoting. Only President Alberto Fujimori of Peru, among the Ibero-Americans, supported Mahathir's concern over the problem of speculation run wild.

Dr. Mahathir would not be deterred. Returning to Malaysia on Oct. 29, following the British Commonwealth Heads of State Meeting in Edinburgh, Scotland, Mahathir told reporters what he thought of the IMF's offer of financial assistance to Southeast Asian countries: "We're quite disappointed that they see this as an opportunity to impose additional conditions. . . . We can overcome the problems if the people support the government and are prepared to be more disciplined. . . . If we are willing to do this, we will not become slaves to anyone. . . . If not, we will be colonized again." Asked about the G-15 draft to the WTO, Dr. Mahathir, "Malaysia will send a similar message . . . there will be no globalization, no deregulatory trend unless new rules are imposed on all countries. . . . We've been asked to open up our market, welcome all foreign investments, but they've abused the freedom that we've accorded them."

In the week between the Commonwealth meeting and the G-15 summit, Malaysia was aggressively engaged—along with Singapore and Japan, in particular, in line with the informal alliance taking shape around the Asian Monetary Fund—in putting together emergency bilateral funding to help Indonesia blunt the impact of an anticipated IMF stabilization package. At the close of the G-15 summit, Dr. Mahathir told press he believes the AMF should be *independent* of the IMF.

On Nov. 1, Mahathir took charge, advising the G-15 ministers to be "more circumspect" in implementing trade liberalization. He warned, "We have already seen how a liberal policy toward currency and share trading has resulted in abuses which undermine years of painstaking efforts to develop the countries of Southeast Asia. . . . While the majority of those who take advantage of our openness are genuine and serious, we must not forget that there are many who only see opportunities for enriching themselves at our expense. Impoverishing us in order to enrich themselves is not something that they will hesitate to do."

A new, more debilitating imperialism

In his keynote address on Nov. 4, Dr. Mahathir left little room for confusion on the effect of speculation. "Without clear definition as to what is meant by globalization, we may find ourselves disadvantaged and helpless, as it is quite often impossible to make corrections after the facts have been created," he said.

"A world trading system cannot rely entirely on market forces. It is time that we draw up fair rules for the market place. If we don't, then the fight for independence will have to begin all over again, for the present market rules will surely result in a new imperialism more noxious and debilitating than the old.

"The international institutions in which we had placed our trust claim that they are powerless to act against these traders.

"This deliberate devaluation of the currency of a country by currency traders, purely for profit, is a serious denial of the rights of independent nations."

Dr. Mahathir turned to disturbing trends in the WTO, where "we face the threat of unilateral action, the denial of developing status, and virtually little liberalization on trade in textiles, garments, and commodities. Systems of trading conceived before the WTO have now become entrenched and little sympathy is shown to complaints that they are detrimental to the economic well-being of developing nations." Developing countries, he continued, have failed to distinguish long-term investments from short-term "hot-money" speculative investments.

Leaders rally in support

Following the keynote, India's Vice President Krishan Kant spoke on behalf of Asian members, Peru's President Fujimori for Ibero-America, and Zimbabwe's President Mugabe for Africa. India's Krishan Kant and Indonesia's President Suharto gave the strongest endorsement to drafting specific reforms in currency trading. Suharto described the "bitter experience of . . . hard work, diligence, and sacrifices over decades . . . wiped out overnight," and called on the members to "immediately find the most efficient means to dampen the adverse impact of sharp currency fluctuations on our development." But, he added that Indonesia believes the UN is "the only international organization with the universal mandate and democratic orientation to assume the task of ensuring justice and equity in the economic relations among nations." Krishan Kant said market volatility "calls for a new approach to regional and international cooperation" and "highlights the need for some insulation of developing countries from the whims of 'market sentiment.' "

Zimbabwe'e President Mugabe warned that Africa, with 33 of the world's 48 least developed nations, runs the risk of being sidelined in the current global economic environment. He said, "For most of the developing countries, the gains of globalization and liberalization are yet to be felt." Nigerian Planning Minister Chief Ayu Ogunlade described currency traders as viruses: "if their actions had affected Southeast Asia and Latin America, it will soon reach Africa."

Egypt's President Mubarak, whom Dr. Mahathir described as one of those leaders most concerned with the risk of the speculative contagion engulfing his country, called for the G-15 central bank governors and financial market authorities to "meet to deal with the rapid flow of capital and gradual liberalization in financial services and investments," and said all nations must work to establish a fair world order. Mubarak, as did others, referred to the Uruguay Round of the General Agreement on Tariffs and Trade as proof of the developing countries cooperation in obtaining liberalization.

Peru President Fujimori's remarks at the end of the meeting are the best example of how the momentum of the debate can cause an uncharacteristic shift in perception. In language not often heard from Fujimori, he referenced the recent collapse of the Asian markets, and said: "The countries which are on the path of development, to become emerging nations, and later, developed nations, can see their aspirations ruined by some sudden intervention of financial intermediaries, financial speculators. . . . This motivates our justified concern and solidarity." Some are hesitant to take this on, he admitted, adding that in the end, the G-15 "came to the conclusion that it could not take a position, nor make recommendations on it, but did decide to make the request to the World Bank and IMF."

But, he admitted, "We must be aware that no country can remain isolated from the repercussions of these kind of turbulences," and singled out Malaysia for praise: for reviving the G-15, with a focus on "economic-financial matters of international interest."