AN INTERNATIONAL WORKSHOP ON CAPITAL FLOWS: ARRESTING SPECULATION AND VOLATILITY
12-14 February 2001, Hong Kong

DOCUMENTATION OF PROCEEDINGS

BACKGROUND TO THE WORKSHOP

The Asian financial crisis that exploded in 1997 exposed serious flaws in the market-dominated economic and fiscal policies pursued by governments and international financial institutions (IFIs) in the era of economic liberalization. The massive flight of capital, which deepened the crisis in the affected economies, made it apparent that mechanisms to regulate short-term capital flows were vital if a recurrence of the crisis were to be avoided. This argument is bolstered by the fact that countries such as China and India, who have not opened up their capital accounts, remained relatively insulated from the crisis.

The issue of capital flows generated much debate, albeit a debate largely restricted to policy-makers within governments and IFIs. If there was one thing, however, that the Asian financial crisis so strongly illustrated, it was that short-term capital flows impinged on matters that should be the concern of broader sections of society, matters such as livelihoods and basic services, government-financed corporate bail-outs, etc.

It was in this light that the Asian Regional Exchange for New Alternatives (ARENA) and the Action for Economic Reforms (Action) embarked on a joint project to provide the venue and opportunity for concerned scholars, as well as activists and civil society organizations, to present, or propose specific and appropriate measures to manage or regulate short-term capital flows.

It was hoped that the workshop would surface policy proposals and an advocacy agenda regarding the regulation of short-term capital flows.

THE WORKSHOP ORGANIZERS

ARENA, established in 1980, proceeds from the recognition of civil society organizations as important actors in social transformation. Initiated by and composed of scholars and scholar-activists in the Asian region, ARENA serves as a regional forum for the promotion of alternative development paradigms and strategies. ARENA's community is organized around a Council of Fellows composed of about 75 scholars and scholar-activists from the Asia-Pacific region. Its primary goal is to participate in the building and sustaining of a community of concerned Asian scholars and intellectuals that will support a process of social awakening, and thereby contribute to people's aspirations for a just and humane society.

Action was founded in 1996 by a group of progressive scholars and activists in the Philippines. It is a non-government organization (NGO) engaged in advocacy on macroeconomic issues, with the view of achieving sustainable development, poverty eradication, social equity, and good governance. It conducts policy research, analysis, and lobbying on key economic and development issues. It also promotes dialogue and debate within the broad social movement towards advancing a progressive reform agenda.

WORKSHOP PARTICIPANTS

The workshop brought together 40 participants from Hong Kong and China, the Philippines, Indonesia, Malaysia, Thailand, Taiwan, Korea, Japan, India, the United States, and South Africa.

Apart from ARENA and Action, the other participating civil society organizations included the Bangkok-based Focus on the Global South, Development Alternatives with Women in a New Era (DAWN), the Penang-based Third World Network, Freedom from Debt Coalition (Philippines), Koalisi Anti-Utang (Indonesia), and the Citizens' Coalition for Economic Justice (Korea). Oxfam Hong Kong and Oxfam Great Britain likewise participated in the workshop.

Participating scholars came from the Hong Kong Baptist University, Lingnan University (Hong Kong), Chinese Academy of Social Sciences, Chung-ang University (Korea), National Taiwan University, Indian Institute of Management Calcutta, Keimyung University (Korea), University of the Philippines, University of Science Malaysia, University of Witwaterstrand (South Africa), and the American University (United States).

There were also participants from the Central Bank of Thailand, the Asian Development Bank Institute, and the Chinese Academy of Restructuring Economic System.

HIGHLIGHTS OF PRESENTATIONS AND DISCUSSIONS

DAY 1: (Moderator: Harsh Sethi)

WELCOME AND OPENING REMARKS

Harsh Sethi (Chair, ARENA Executive Board, and Consulting Editor, Seminar), and Carlito Anonuevo (Chair, Action Board of Trustees, and Associate Professor of Economics, University of the Philippines- Los Banos)

The objective of this workshop is to discuss in some detail specific country experiences in order to both better understand the financial crisis of the late 90s, and the different strategic paths followed to overcome the crisis. The ongoing debates on the implications of capital inflows and outflows have provided sufficient indication that policies to regulate capital flows have serious social and political implications for the economies in question. A better understanding of the issues would help equip civil society organizations in the broader task of advocating pro-people policies.

KEYNOTE SESSION: LESSONS FROM THE 1997 FINANCIAL CRISIS

Filomeno Sta. Ana - *(Co-ordinator, Action for Economic Reforms, and Lecturer at the National College of Public Administration and Governance, University of the Philippines)*

In the wake of the Asian financial crisis, there was considerable discussion about whether the crisis was caused by weak economic fundamentals (the internal factor), or the contagion effect (thus, externally-induced). In both cases, the relevance of controls on short-term capital flows applies.

From a development perspective, there have been numerous studies on the impact of the Asian financial crisis on poverty and inequality. But what remains to be explored is the impact of capital account liberalization on these two key issues. It is difficult to establish a direct impact between capital account liberalization and poverty; links are established more indirectly through macroeconomic mechanisms such as fiscal and monetary policies. And more importantly, poverty reduction is first and foremost determined by how pro-poor a government's policies and programmes are to begin with.

***CP Chandrasekhar** - (Professor of Economics and Chair of the Centre for Economic Studies and Planning, Jawaharlal Nehru University, New Delhi)*

The East Asian crisis focused attention on the dangers associated with a world dominated by fluid finance. It highlighted the fact that once there are completely free capital flows and completely open access to external borrowing by private domestic agents, there can be no 'prudent' macroeconomic policy; the overall domestic balances or imbalances will change according to the behavior of capital flows, which will themselves respond to the economic dynamics that they have set into motion. The crisis also brought home the fact that financial liberalization can generate crises in so-called miracle economies as well.

There are four initiatives that are necessary to deal with the potential financial and real instability that the accumulation of fluid international finance generates. First is the need for centres of international finance to deal with the 'moral hazard' problem inherent in the financial system. Second is the need to check the growing consolidation of the financial sector. Third is the need to ensure a degree of control and regulation of purely financial flows into developing countries, building on the experiences of countries like Chile and Malaysia. And fourth is the need for policies to reduce the volatility of medium-term financial flows.

But four years after the outbreak of the Asian crises, not much progress has been achieved on any of these fronts. And there is evidence of a diminished sense of urgency, and a paralysis of policy.

***Edward Chen** - (President, Lingnan University, Hong Kong)*

There are no definitive answers even today to the question of what led to the financial crisis of 1997-98. It still remains a puzzle. None of the numerous theories that have been put forward in the aftermath of the crisis satisfactorily explains why countries with sound macroeconomic fundamentals and healthy banking practices faced problems, as did those countries with loose economic policies. It is also 'puzzling' that when the Asian economies were enjoying growth, the close interconnection between the state, the financial sector, and the corporations was hailed as an 'enviable partnership'; after the crisis, it was regarded as 'cronyism'.

Most explanations and theories have thus far been piecemeal. What can be argued is that financial crises are products primarily of the prevailing international financial system, which has become a dollar-standard system after the gold standard came to an end in the early 1970s. This system has not evolved in a way that can cope with the rapid changes in the global financial sector. Specifically, the IMF has not been able to deal with the problems of prevailing international financial operations, as illustrated by their role before and in response to the Asian crisis.

It is time to discuss building a new financial architecture. Unfortunately, as the crisis was soon brought more or less under control, the enthusiasm for this has waned.

THE RELEVANCE OF CAPITAL CONTROLS: LESSONS LEARNED

Malaysia's Capital Controls: An Evaluation

***Subramaniam S. Pillay** - (Associate Professor at the Finance Division of the School of Management, University of Science, Malaysia)*

The crisis of the late 90s was the worst since independence, marked by a sharp and severe depreciation of the ringgit, high volatility, sharp economic downturn, and economic and psychological shocks to the government, businesses, and the public in general. Capital controls were introduced as part of a general economic recovery package. Its features, among others, included the following: currency was de-internationalised (no trading in ringgit abroad), foreign portfolio investments must remain in the country for at least a year (replaced with capital gains tax of 10%), exports must be paid for in foreign currency, and investments abroad greater than 10,000 ringgit needed BNM authorization. Certainly, the motivations for putting capital controls in place were not only economic but political as well, i.e. to help out party-linked companies, and to contain the financial and economic fallout from the then imminent dismissal of Anwar Ibrahim from the government and party.

Establishing whether or not capital controls were an economic success is methodologically difficult (problematic counter-factuals). However, they did contribute to the following positive indicators: exchange rate stability, competitive exports, and improvements in current account surplus and foreign reserves. On the other hand, there was a significant reduction in foreign direct investment in 1999 and 2000. And ironically, foreign portfolio investment still flows freely in and out; so the question remains as to what would happen if another crisis takes place.

CAPITAL FLOW, EXCHANGE RATE, AND STABLE GROWTH IN CHINA

***Jie Sun** - (Senior Research Fellow, Institute of World Economics and Politics, Chinese Academy of Social Sciences)*

Foreign capital has played a very important role in promoting China's economic growth and strengthening its balance of payments. It must be noted that the country's capital account structure is characterized by a large component of long-term inflows.

As an emerging market economy, China was affected by the Asian financial crisis to some degree- for a time, foreign capital inflows decreased. To reduce the side effects of the crisis, the People's Bank of China (PBC) strengthened regulations on currency speculation in the middle of 1998. It has also adopted a policy of orderly and sequenced liberalization of the capital account. This policy acknowledges the volatility of portfolio investment compared to foreign direct investment, but also allows foreign portfolio investments in certain Chinese equities markets, i.e. the B-share.

As China proceeds with domestic financial liberalization, and further opens up many previously closed sectors (such as telecommunications, retail, and financial services), capital flows are likely to pick up significantly. If China maintains a rigid exchange rate policy in this situation, policy mismatches are likely to occur. Thus China is likely to keep moving towards greater exchange rate flexibility.

Confidence is a key to financial stability; and China enjoys this as its leaders have shown their competence in tackling difficult economic situations, and have the public's trust.

DISCUSSIONS

On sterilization

Jie Sun: Sterilization raises domestic interest rates and this is not good for economic growth. However, sterilization in China is different because in the mid-'90s, which was China's high inflationary period, the nominal interest rate was high enough; but if the central bank has a sterilization policy, the total money supply would be stable no matter how much the capital inflows. The real challenge of the sterilization policy is a regional one. Development disparities between the coastal and hinterlands exist; if interest rate increases, this helps in the China case.

Subramaniam Pillay: Sterilization has its costs and benefits. In Malaysia, if inflows are not sterilized, the money supply becomes very volatile. Money supply shrinks when there is an outflow; money supply increases when there is an inflow. You have a real "knockout" effect on the economy. When you have volatile short-term capital flows, which are not sterilized, the mechanism (inflation and exchange rate) is drastic. If the economy is rigid, when money supply increases, then inflation increases. If money supply increases due to outflows, there is a "ratchet effect" because of supply bottlenecks, and price increases. You don't get equalization of interest rates, contrary to theory. Malaysia decided to sterilize to have more stability in the economy, rather than lower interest rates.

Jie Sun: The difference is due to the structure of capital inflows. In China, it is foreign direct investments; in Malaysia, more of portfolio investments. So capital inflows are more "stable" in China than in Malaysia.

T. Rajamoorthy: In Malaysia in 1993, the Stock Exchange increased by 1000 points in the composite price index; the banking system was flush with liquidity. So capital controls were imposed in 1994. Sterilization is an expensive exercise and cannot control these surges.

Sushil Khanna: Sterilization cannot be discussed by itself. The way it is manifested is in policy. The central bank may have autonomy vis-à-vis the domestic economy but is dependent on foreign finance.

CP Chandrasekhar: Monetary policy is not responding to the whimsical policies of foreigners. If you allow this, sovereignty can be undermined.

Some comparisons between Malaysia and China

Sushil Khanna: In China, foreigners invest in "B" shares, while Chinese invest in "A" shares. So when you want to reverse the flow, the "B" investors need to sell their shares in dollars, so there is no capital outflow. If Malaysia has this, it can follow the Chinese model - no capital outflows.

CAPITAL CONTROL AND LIBERALIZATION: INDIA IN THE 1990S

Sushil Khanna

(Professor of Economics and Strategy, Indian Institute of Management Calcutta)

The general belief that India remained relatively unaffected by the 1997-98 crisis is wrong. And despite widespread praise for India's capital control regimes, its management of its capital account has been far from effective in providing stability and growth to the economy. Capital account liberalization in India has shaped the monetary policy and the interest rate regime of the Indian economy. Though the absence of capital account convertibility for Indian nationals and firms has ensured that the Indian economy did not face the kind of asset inflation and subsequent 'crisis', it has nevertheless paid a heavy price for even this partial liberalization- including the severe balance of payments crisis in the early 1990s. The subsequent liberalization of the foreign exchange control regime, the move to full convertibility for current account transactions, and partial liberalization of current account transactions has made the Indian economy even more vulnerable to shocks from the external sector.

HOW COULD TAIWAN HAVE BEEN INSULATED FROM THE 1997 FINANCIAL CRISIS?

***Chen-min Hsu** - (Professor of Economics, National Taiwan University)*

Taiwan was affected by the Asian crisis due to its close trading partnerships with the crisis countries crisis, and its imperfectly developed banking and financial sectors. However, Taiwan's economy generally proved resilient. This was due to a number of factors. First, domestic savings were adequate for the financial requirements essential to the pursuit of rapid economic growth; companies borrowed domestically rather than internationally. Secondly, small and medium-sized enterprises constitute the bulk of Taiwan's businesses. Finally, the process of financial liberalization was very tightly controlled by the Taiwanese government-interest rates were liberalized in the early 1980s; the foreign exchange system was converted from a fixed rate system to a managed flexible rate system in 1979; and the liberalization of the securities market started in early 1988. The participation of foreign investors in the Taiwan securities market was allowed to increase very gradually. This conservative liberalization policy together with the partial deregulation of capital movement made Taiwan less vulnerable to speculative attacks on foreign hedge and mutual funds.

In response to the 1998 domestic financial crisis, the government initiated reforms to further improve the efficiency of Taiwan's financial institutions. In particular, revisions to the Banking Law were made in order to, for instance, increase penalties for illegal financial dealings, and improve regulation.

DISCUSSIONS

On Taiwan's financial controls

Heather Grady: I am interested in Taiwan's measures with respect to controls used in the economy. Are you pressured by international institutions, as well as bilateral agreements with certain governments or other sectors to change some of those measures?

Chen Min Hsu: There is strong pressure on Taiwan from the United States to carry out financial liberalization. In 1987 for instance, the United States government applied strong pressure to discourage Taiwan from applying capital controls. Other pressures on the economy were toward trade liberalization in the early 1980s and financial liberalization in the late 1980s. Financial liberalization included the securities market as well as the banking industry.

Heather Grady: What about the measures that Taiwan used in the past two to three years? Which measures were kept in place despite strong pressure against it? What were the sources of pressure and how were these withstood?

Chen Min Hsu: Joining the WTO led to intense pressure on Taiwan to open up the securities market. Although restrictions were generally lifted with respect to trading, foreign exchange firms faced the ceiling of 2 billion US dollars.

Simon Roberts: Could you elaborate on the role of the state in the financial sector? For instance, how was the lack of financing among small and medium enterprises addressed by the state?

Chen Min Hsu: No financial aid was accorded to small and medium enterprises except for incentives such as tax reduction and investment credit (the latter was specifically for encouraging the electronics industry). Technology parks also became another form of incentive. Interest rate policy on the other hand was not employed by the central bank to stimulate industry.

PLENARY: CAPITAL CONTROL INITIATIVES- IMPACT, ISSUES, AND LESSONS
Filomeno Sta. Ana

What lessons drawn from the country experiences in capital controls have universal applicability?

Given that several factors explain why several countries were insulated from the crisis, how decisive are capital controls as a determinant in preventing economy-wide shocks?

The Asian economies hit by the crisis recovered quickly. Some followed IMF prescriptions; some did it their own way. Does this weaken the argument for capital controls? We see that regardless of approach, the countries recovered.

There seems to be consensus that capital controls are temporary and they serve to supplement a broad reform package. But how do we reconcile this position with the proposition that capital markets are characterized by information asymmetry, which then would imply that market failures are inherent?

Related to this is the sequencing argument. Will the proper sequencing, including the strengthening of institutions, be enough to address market failures or asymmetries in information?

CP Chandrasekhar

Are we all agreed that just the fact of capital flows is a problem? Broadly, there are two kinds of positions. One is that there is a problem there in itself, i.e. in part the crisis was a creation from outside. The other view essentially says that capital flows are not bad and allow a certain degree of efficiency as long as we know how to deal with it.

What do we have from the country experiences? The case of Malaysia was clear. The policies undertaken were successful in the economic and political sense (although some people who would raise objections to this conclusion). Domestic states can use capital controls to promote their own interests, or concentrate on international flows then deal with international flows independently of domestic implications in the short or medium term.

Capital flows are not necessarily detrimental. In the case of China, we learned that as long as you know how to deal with them- through exchange rates and money supply, for example- a certain degree of confidence in policies is established. In the experience of Taiwan, the argument is that capital flows are not all good. One way to deal with them includes sequencing the response to flows. Another can argue that sequencing per se may not be the solution. In India's experience, as long as you are in the world of capital flows, you don't have to go too far in liberalization. You just need to have current account liberalization with delayed expatriation of export proceeds- that would be enough to destabilize the system. So the answer is you have to be far more careful regarding fluidity.

Responses from the floor

T. Rajamoorthy: The concept of prudential management is appreciated in the context of speculative flows. Prudential management is also being raised as a way out of capital controls.

Chen Min Hsu: The problem of Taiwan is opposite from the other countries because I believe that capital liberalization should be done in Taiwan now. In Taiwan's case, sequencing was applied. Capital controls led to the accumulation of foreign exchange. Macroeconomic policies were sound. Export orientation was focused on. The incentive to promote savings and the restriction of imports were also measures in addressing volatility. But due to liberalization pressures, trade was opened up, and there was an over expansion of credit.

Beginning the 1990s, there were 16 new private commercial banks. In the context of joining the WTO, competition will be allowed against the domestic banks.

Johan Saravanamuttu: Major factors enabled Malaysia to use capital controls. First, the political situation allowed Prime Minister Mahathir to apply certain policies. The rift between Anwar Ibrahim and Mahathir played a large role in the bold steps toward radically perceived policies. Second is the high savings rate and the availability of domestic capital, which includes cash cows like the National Oil Corporation. As a further effort to qualify the Malaysian success story with unique circumstances, crony bailouts came late; but a major bailout, that of Mahathir's son, came in the early period.

Policies are usually discussed in a macroeconomic sense, and to a large extent may have universal applicability. But they are in fact very unique. Control policies provided insulation from further international volatility. But if these polices came early like in the case of Taiwan, Malaysia would have avoided the crisis and need not just blame it on Soros.

Kim Young-Chul: There is a contrast between Malaysia and Korea with respect to responding to IMF measures. Malaysia adopted recommendations that were almost opposite that of IMF measures. In the case of Korea, historical accidents should be considered as to why Korea followed IMF measures.

Korea asked for aid from the IMF in December 1997. It was a transitional period since the new government was elected. Foreign resources were scarce. Financial crisis was caused partially by international fund managers. But for the new government, it was easier to blame the old government. Consolidation of strategies was easier when the blame was passed on to the old government. The Korean government did not bring up the responsibility of the international financial architecture. In 1999, Korea recovered. A V-curve recovery was observed. Now there is a decline again and Korea is hoping for a W-curve growth scenario and hence wishes that recovery will come soon.

Rungsun Hataiseree: Taiwan and Malaysia have high saving rates. That is why they were successful in cushioning the effects of crisis. Thailand saved at a rate of 35%; but on the other hand had other problems, which included an investment-savings gap. Investment rate was 40% for the past few years. The gap relied on foreign borrowing and 80% of borrowings had short-term maturity.

Subramaniam Pillay: Because in Malaysia, the central bank always regulated short term borrowing, the latter did not exceed reserves. Hence there was no need to be rescued by IMF unlike Korea, Thailand, and Indonesia which were unable to meet their obligations.

I doubted Anwar's ability to understand economic issues. He was suggesting pseudo-IMF policies. Many NGOs opposed; and Anwar eventually yielded. This was before capital controls. The point is that there were initial differences in opinion but that was reversed.

No one really knows how effective capital controls are. Another period of stress would give us answers.

The reason why Korea and Malaysia recovered despite differences in policies is due to their large electronics industry.

Just look at the economies of Taiwan and Singapore. As far as the universal applicability of lessons, foreign borrowing should be regulated especially if the financial sector is weak. If firms are not generating foreign exchange, they should not be allowed to borrow.

Sushil Khanna: Regarding the savings-investment gap in Thailand, short-term flows are useless for financing investment. Any country pretending that this capital can be used to finance investment does not know anything about finance. Going back to an earlier point, do we strongly resist this kind of flows? Yes, because this kind of capital is not linked to the real economy or exports. If investment exceeds savings then deflationary policies should be followed, or long-term sources utilized. Successful countries exhibit a savings rate higher than the investment rate, current account surplus, and the absence of net foreign capital. There are advantages in accessing short-term capital but it should be emphasized that these countries were insulated because they learned to live within their means. These flows cannot be used unless they are converted to long term financing.

In China's case we see that there is value in having separate stock markets for domestic and foreign investors. If they have a current account surplus, no foreign savings will be used. The goods coming in the economy are less that what the economy is exporting, In the real economy, no capital is being added, even with respect to FDI. Vietnam has FDI, which finances a large current account deficit. Vietnam is a small country and its development is financed from long-term sources.

Jie Sun: I am very happy about all the analyses of China's economy; but this is a very complicated matter. There should be a balance of costs and benefits when it comes to the discussion of policy.

It is right that sources of investment financing cannot come from the capital account surplus.

Notice that China has surplus both in the current and capital accounts. Foreign reserves increased, but were later reduced. Where did the money go? Probably it got drained due to capital flight. If we look at the balance of payments, we will see that the error of omission is quite large. Capital flight still happened despite capital controls. The problem comes from market forces, including the trade-off between benefit and transaction cost of capital flows. We do have to separate the A and B shares. A fundamental question is, why do we impose capital controls when transaction cost is high?

If the Chinese banking system is highly efficient so that the banking system can compete with foreign banks, then the financial sector should be liberalized. The gain from opening up should be balanced with the costs.

CP Chandrasekhar: Regarding capital flight, what would be the mechanism for avoiding it? If you look at a country like Mexico, the latter had huge capital flight due to a liberalized capital account. Domestic residents translated domestic currency assets to international currency when the currency speculation was showing signs of leading to severe adverse effects. So there I can understand what the mechanism is because the system allows capital flight.

Jie Sun: We have some research that clarifies the mechanism through which capital flight occurs. I believe it is market forces when the economic mechanism favors capital flight despite high transaction cost and capital flow.

CP Chandrasekhar: You are saying that you are taking the transaction cost because there is a problem in the macroeconomic level. So if you sort the problem out and say that you have capital account convertibility, you think that capital flight can come to an end.

Jie Sun: Yes, I believe that; but it is important to emphasize the trade-off between liberalization and capital controls. We just have some examples. We do have to have separate stock markets for foreign and domestic investors. Capital flows and liberalization figure in asset bubbles. If there are too much bubbles in the Chinese market now, then that is one of the reason why we need capital controls. But the key point is that if we have a healthy macroeconomic situation then liberalization or controls do not matter.

Wen Tiejun: In contrast to the portrayal of China as a nation of high growth and absence of crisis, China has, in fact, experienced financial crises. Crisis struck China five times. The first one was from the late 1940s to the early 1950s, when there was a major political shift. What characterized the financial crisis were the absence of revenues and serious inflation. The second crisis was triggered by foreign investment attributed to trade unions. The latter went into the investment of stocks. The activities of the trade unions influenced industrialization. There was no financial recovery, hence China's industrialization was severely affected. Actually the crisis was more of a fiscal nature. In the 1950s, savings were held and redistributed through government fiscal spending. There were no banks with investment functions. The third crisis occurred in 1978-1979. The cause of the crisis was also due to investment and the opening up of the economy by Chairman Mao in 1972. China had no ability to export. The crisis was again more of a fiscal nature as opposed to a financial one. The fourth crisis happened in 1988 when inflation exceeded 18.6%. The Chinese government then adopted strict controls, which led to a depression lasting for several years. The problem was both in the context of fiscal and financial crisis. The fifth crisis occurred in 1994-1996. Due to the decline of reserves, currency depreciation followed. In 1996, inflation was very high and it went up to 24.7%. We can therefore see that crisis hit five times. Although these economic stress periods were of a different context, they gave China awareness and lessons. When people talk about capital controls and portfolio flows, it must be considered that these have different meanings in China and cannot really be used to describe the real situation in the country.

Subramaniam Pillay: Going back to the investment-savings gap- it is important to contrast how different countries finance this gap. In Malaysia, savings was high but investment was higher. In the early 1980s to mid 1990s, the gap was entirely financed by FDI. From the mid-90s onward, foreign portfolio capital played a bigger role. Malaysia not needing to go to the IMF is a totally different issue from capital controls. You don't need to go to the IMF because there was no foreign obligation. But that does not mean the banking system had no problem. Deposits were being transferred from Malay-owned banks in Malaysia to foreign banks within the country. That problem could have been solved through inter-bank loans for instance. Capital controls were applicable to the predicament that Malaysians were taking their money out to deposit in offshore banks.

Rungsun Hataiseree: Before 1997, capital flows in Thailand were short term in nature and used in the unproductive sector. This led to asset price inflation, which had implications on the RER. The appreciation of the RER hurt the export sector. In 1994-1996, there was zero export growth compared to the past year of 25-28% export growth. The electronic sector is one of the most important export sectors making up about 30% of total exports.

Harsh: No one here has dramatically objected to the proposition that short-term speculative capital flows are bad. Either exports exceed imports, meaning that there should be a current account surplus or a separate stock market should be established so that foreign investors can only sell shares to foreigners, insulating the domestic economy from external volatility. Alternatively, the country can look for low interest long-term borrowing from whatever sources and use them in productive investments and earn exports to repay loans.

In this particular seminar, we talked about the Asian crisis and the long-term implications on certain societies. The effect on the poorest within a country is a major concern. And so is the decline of national sovereignty in many ways. Development policies took a radical shift. The interest that was pursued is not quite domestic popular interest. I have not heard one comment about this from the time of the 1991 crisis in India to the period with new economic reform packages. We have suffered major problems in the organized labor market which has experienced increased normalization.

It is urgent to understand the effects of the crisis, how they were caused, strategic choices of sovereign countries, and how it affects the concern of common people e.g. accessibility of goods and services to common people at certain prices.

Simon Roberts: I want to come back to the issues of capital inflows and its link with employment for instance. When we talk about a healthy macroeconomy, we talk about employment and production. The problem is capital inflows in a short-term nature. This has implications on the control of capital considering that people have ways to get around controls.

The problem is borrowing capital as opposed to using domestic capital. A lot of players in the capital market are South African banks that have branches abroad. They were involved in problems in the mid-90s.

The Government took a cyclical policy action (e.g. in terms of fiscal policy) to stimulate the economy. We need to come back to employment in terms of understanding the meaning of controls and the ability of government policy to address these issues.

Regarding the need to have a very high savings rate as a basis for the economy to insulate itself against financial crisis or capital flight, the experience in South Africa would provide qualification. In the context of the low savings rate in South Africa, there would be apparent basis for raising interest rates so that a higher savings rate would ensue. But the situation is that there is no increase in savings. There is no clear established link between high interest and savings. But there is a link between improving standards of living and the ability to save for the future.

Subramaniam Pillay: There is nothing radical in capital controls considering the shifts that took place in the Soviet blocs for instance. But capital controls are perceived to be so radical now especially after the collapse of the Berlin Wall, and when it is appreciated from the point of view of neo-liberal policies. It would be scary for many quarters if each country implemented capital controls. We have to give Mahathir some credit. Malaysia was not in any danger of ever resorting to the IMF. People were withdrawing their money and dumping them in, for example, Citibank. People were speculating about which bank was going to collapse next. Panic already started; and if the situation was left unattended, it would have gone out of hand. Reserves were getting depleted and businessmen were finding it difficult to do business. Everyone wished that at some point the situation had to stabilize. The initial deflationary policy reaction had no effect and the economy was still not insulated. By itself, pump priming had no effect. It had to be backed up to be effective.

CP Chandrasekhar: People argue that one of the real factors that underlie the basis for the decline in confidence in terms of an increase in the trade deficit before the crisis is the recession in the industry of semi-conductors and electronics in general. This resulted in poor export performance in countries that relied on electronics. The world industry was not contracting; but the exports from the Philippines were becoming very competitive. The unit value of electronic exports from Asia before the year exports collapsed came down massively. So electronics had a role in triggering the crisis. I am not sure about its role in the recovery.

Nicola Bullard: I just want to make sure that we don’t lose some of the comments that both Simon and Harsh have made, and restrict ourselves to a discussion on short-term capital flows because we can agree that we should regulate those flows. How we do it is subject to debate. There seems to be consensus that FDI that are used to generate exports that would pay off obligations would probably be okay. We should be more critical regarding what kind of FDIs and not merely look at the potential to generate foreign exchange. Important factors include job-generating ability, environmental impact, technological transfer, and local productive capacity. Analysis needs a much more sophisticated perspective regarding FDI. Its regulation through competition policy should also be explored. That would be a much more different political struggle because this would impede the access to all sorts of sectors in the economy that TNCs want to get into. The World Investment Report from UNCTAD last year shows that 60% of FDIs were in fact mergers and acquisitions. This is a trend that is developing. There is little evidence that the domestic economy benefits from mergers and acquisitions in terms of technology transfers, job creation, and transfer of profits out of the country. There should be a link between capital flows and these issues.

CLOSING REMARKS
Filomeno Sta. Ana

We have looked at a really broad range of issues today. And there seems to be a consensus that capital controls are beneficial. But we do need to clarify the types of capital controls- for instance, in Malaysia, the emphasis is on controlling capital outflows. We should make a distinction regarding capital controls on inflows and outflows. In some contexts, the more troublesome part is excessive capital inflow. We likewise have to make a distinction regarding the types of capital control- hard or direct control, soft or indirect control. Capital controls may not be significant in the context of a healthy macroeconomy; but such regulations should be put in place in normal or boom periods

Another distinction is between short-term and long-term capital flows. In the case of Chile, its success lay in its ability to shift short-term investment or portfolio capital into long-term investment or FDI.

Finally, it is also interesting to look at responses to crisis. What is the difference between the paths that Malaysia and Korea took, in the sense that both recovered? The Malaysian model as opposed to the orthodox approach allowed space for the state to undertake counter-cyclical policies, which had a stronger impact on development.

CP Chandrasekhar

Taking off from an earlier point, some people argue that measures outside capital controls are good enough- like prudential regulation, greater banking supervision, increase in transparency, etc. Is it possible given the nature of the financial system to undertake these and make things work? For a set of countries that carried out financial liberalization and met with crisis, we do need to work out details of the implementation of capital controls. We should also work out the details regarding giving flexibility to the state so that it will be able to launch development strategies that are positive from the point of view of the people. This includes the argument that for a country where opening up capital markets was slow, there should be a degree of liberalization.

DAY 2

(Moderators: Josefa Francisco and Johan Saravanamuttu)

GAP: Gigi's introductory synthesis (Vickie)

KEYNOTE SESSION 2: TOWARDS BOLDER MEASURES TO REFORM THE INTERNATIONAL FINANCIAL ARCHITECTURE

As there was insufficient time for the reactors (Joseph Lim and Howard Wachtel) to study Joseph Stiglitz's paper, this session was cancelled. Instead, participants were informed of the availability of Joseph Stiglitz's paper, 'Capital Market Liberalization, Economic Growth, and Instability' (*World Development*, volume 28, number 6, 2000).

MEASURES & PROPOSALS TO MITIGATE THE IMPACT OF VOLATILE CAPITAL: THE PHILIPPINE CASE

***Jessica Reyes-Cantos** - (Member, Management Collective of Action for Economic Reforms, Legislative Chief of Staff, Office of Rep. Wigberto Tanada, House of Representatives, Philippine Congress)*

The type of capital controls that a country can put in place is determined by its vulnerabilities, the timing and context within which the controls are put into effect, the nature of implementing institutions, and the signal/s that the government wishes to send to foreign and domestic investors.

For the Philippines, a number of control measures have been proposed. These include: the Fabella proposal for a time-graduated capital gains tax, adopting Chile's non-remunerated reserve requirement, adopting the Stiglitz proposal for limiting the extent of tax deductibility of interest on debt-denominated or foreign-linked currencies (to discourage foreign borrowings), a ceiling on the percentage share of foreign exchange liabilities of commercial banks, and an Asian Tobin Tax.

DEBT WORKOUTS: EXPERIENCES, LESSONS, AND POLICY IMPLICATIONS

Indah Nuritasari - (Secretary General of the Indonesian Institute for Democracy Education, & Member of Koalisi Anti-Utang)

Before the crisis, Indonesia's debt was driven primarily by the private sector; but after the crisis, it was government debt that grew significantly, due primarily to bank re-capitalization costs. The debt situation has serious implications for recovery and development, as well as serious consequences for the poor. To reduce the burden of private debts, the Indonesian Bank Restructuring Agency (IBRA) and Jakarta Initiative Task Force (JITF) were established in 1998; but these have not proved efficient and effective. Similarly, the government's attempts to reduce public debs have not yielded significant results.

Indonesia needs to improve its debt management, should consider negotiating for debt reduction, and must, in the long-term, increase domestic savings and introduce long-term domestic debt instruments. Private debt must be reduced by making the IBRA and JITF more active and effective in loan re-structuring, and asset sales. Relatedly, the bankruptcy court must be made to function better.

RESTRUCTURING KOREAN ECONOMY AFTER THE IMF CRISIS

***Young-Chul Kim** - (Professor of Economics, Keimyung University, Taegu, Korea)*

There are basically two arguments as to why Korea had to go to the IMF for bailout funds. The first argues that the Korean economic model was out of date and failed to cope with rapid changes in the global economy. The second maintains that western capital managers, and their volatile short-term capital flows, led Asian financial markets to the chaos of 1997. The Korean government supported the first argument, and thus focused its post-crisis work according to IMF prescriptions- reforms in the corporate, financial, public, and labor sectors, with an emphasis on strengthening market discipline.

Three years after the crisis, corporate and financial re-structuring has been accomplished to some extent; but there is still little confidence that the Korean economy will manage to rehabilitate and re-strengthen itself. There is widespread feeling that the re-structuring programmes were pursued to meet external pressures, and not in accordance with internal imperatives and conditions.

Since the IMF crisis, foreign capital has been advancing rapidly into the domestic market- into the domestic financial industry, including non-bank sectors such as securities firms.

Negative social consequences have surfaced, such as widened income disparities, and also regional disparities. Due to the huge cost of re-structuring, the government's fiscal burden has likewise increased. The economic sovereignty of Korea needs to be rehabilitated, and its social integrity enhanced.

GAPS: Discussions re Philippines, Indonesia, Korea (Vickie)

WORKSHOP REPORTS

GROUP 1: CAPITAL FLOWS AND SOCIAL POLICY, POVERTY REDUCTION

Rapporteur: May Ling Chan

We looked into the relationship between capital flows and poverty levels, and concluded that regulating capital flows has an indirect link with better crisis-coping, provided there is good governance and political will. Decreasing volatility through regulating capital inflows and outflows relieves governments of pressure, and allows space for the latter to focus more on basic issues like allocating resources to the most vulnerable sectors in times of crisis. There should be a shift of attitude towards poverty, and social issues like education and unemployment. Although we see why regulation needs to be prioritized, in a financial crisis, there are more important issues than capital flows. Examples would be trade liberalization and government allocation of funds.

We recognize that it is hard to analyze the relationship between social policy and capital flows. But where countries have opted to liberalize their capital accounts, there has been more vulnerability to social instability and the worsening of poverty.

Supplementary comments from other group members:

Harsh Sethi: We are talking about the relationship between capital account convertibility and what happens to the social sectors. We would directly lay blame on the IMF and any external institution for constructing a set of choices for national governments. Much of what we do, or how we allocate resources and money, like for instance for water supply, sanitation, and defense are internal political choices. In a situation where you are in a crisis due to capital account volatility and you get into the IMF trap, deflationary policies would be the next step. A decrease in public expenditures would follow. But the context of the situation must be looked into first before policies are imposed.

Josefa Francisco: It is true that there are systemic and structural problems of poverty and inequality in our countries in context of capital account liberalization in the last ten years. But capital flows associated with new or post Bretton Woods financial markets brought in different types of capital flows that led to volatility and monetarist types of management or stabilization. There is a need to decrease such volatility and risk by trying to develop monetary stability so that government can concentrate on other problems like poverty, inequality, and unemployment. The opportunity for governments to easily access short-term financing moved them away from discussing real problems like savings, expansion of production, and domestic investment. What came out of the discussion is the plea that volatility and risk must be decreased. Concern should also shift to the more pressing concerns of social policy. Issues regarding poverty, unemployment, inequality, social welfare should be prioritized in economic management.

Responses from the floor

Chen Min Hsu: In Malaysia's case, before the government imposed a capital control policy, there was currency depreciation, import price inflation, income distribution problems, and suffering especially for people in the rural areas.

Subramaniam Pillay: The construction sector was the most affected- it came to a complete standstill. There was massive loss of jobs. But more than 90% of the workers were foreign. Others went home to their countries, while others remained in Malaysia illegally. Hence resident unemployment did not suffer too much.

In the BOP, there were unrequited savings. Regarding inflation, in 1998 there was a one-shot jump in prices, especially with respect to imported commodities. But during the course of the slowdown, there was no inflation due to profits being squeezed. Hence prices remained low. Farmers whose produce were being exported, especially palm oil, benefited while those whose produce were geared for the domestic sector suffered.

GROUP 2: CAPITAL FLOWS AND TRADE
Rapporteur: Simon Roberts

We discussed a broad range of issues regarding capital flows. These issues are surrounded by trade, and its relationship with productive capacity, as well as how the development path of an economy is affected. Included in the discussion were short-term flows, FDI, the WTO environment and the role of the state.

Instead of saying that FDI is good or bad, the nature of FDI is very important to look into. This refers to the relationship and linkages of FDI with the domestic economy, development strategy, and ways a government negotiates with foreign investors. Furthermore, before starting off with the emphasis on export orientation, what must be analyzed first is the relationship between trade in the context of the role of multilateral corporations. The access of technology and different productive capabilities are important parts of the development strategy but openness to FDI may make us ignore these nuances in the issue. The role of the state and government depends on a range of relationships in that economy. Finally, where there is foreign investment, it is important that it is related to export earnings coming in as a result of those flows.

In terms of short-term flows, we were more categorical about any significant benefits from these flows. This is difficult to determine. These flows have impacts on the exchange rate and competitiveness of the domestic economy. They also make the economy vulnerable, affecting long-term investment. Resources get channeled into real estate, which shows another problem with the capital market. Speculative bubbles arise in this sense. Requirements in the WTO limited countries' ability to influence policy, interact with foreign investors and to adopt measures that would relate FDI to the development strategy. Industrial policy should be seen in the context of the development strategy.

<u>Responses from the floor</u>

Heather Grady: Is it not the case that foreign investment in the stock market would by definition be short-term? And are you saying that foreign investment in the domestic stock market have no value or benefit? I have no particular position but this is a bold conclusion.

Simon Roberts: The discussion was only on broad terms. It did not touch on whether the stock market is good or bad. We identified that there is a huge range of dangers in portfolio investment in the stock market. Measures regarding monitoring, influencing, or controlling short-term flows are very crucial.

Sushil Khanna: We did discuss why countries allow short-term flows, and the benefits derived from that. One of the benefits in allowing stock market investment by foreigners is it gives depth to the local stock market. Many developing countries don't even have stock markets. The latter does not figure in development financing or industrial strategy. Instead, banks are there to be the intermediary between savings for investment. Therefore, there are no benefits from having a stock market in a country. Capital from abroad cannot be used for long-term investment because it can leave any time. Since money capital in this nature should not be used, there is no net addition to domestic investment. Short-term capital gives rise to asset price bubbles, destabilization, speculation on the currency, and illusory richness and growth. If this capital can be taxed, or prevented from going out quickly, or kept for at least over the medium term, then it can be used to fund projects. A high savings rate should accompany this control of capital flows.

Wen Tiejun: It seems that FDI is seen positively, while short-term capital is seen in a negative light. But it is not a question anymore of whether or not to have FDI. Under the WTO structure, it would be hard to negotiate with investors or discriminate, in the interest of the country's economic program, even against FDI that propagate harmful or backward technology.

Simon Roberts: We acknowledge that we have to deal with what exists. But there is a major issue around this; we should be looking at issues and pressures surrounding the WTO.

Wen Tiejun: Overseas scholars think that China is performing well in terms of its current and capital accounts because both are enjoying surpluses. But the latter are due to FDI that can flow out, affecting interest rates which, in turn, adversely affect the capital account. Hence FDI is not perfect.

Johan Saravanamuttu: (In jest) We end up with the position that no capital flow is beneficial and necessary. This is a very radical position.

GROUP 4: CAPITAL FLOWS AND THE INTERNATIONAL FINANCIAL ARCHITECTURE
Rapporteur: CP Chandrasekhar

The basic point we started with was a statement that instead of speaking of an international financial architecture, we should talk about the international financial system of governance. There are two main reasons. The first is the possibility of going into the mainstream considering that the IFA is the jargon of the IMF. Second is that the issue is not purely economic. The alternate title might prove to be more beneficial.

We need to re-structure the system of governance. The need for this dominantly stems from the state of competitiveness of the U.S. economy, the U.S. dollar being the reserve currency of the world. Whenever there is a situation where there is an alternative currency (e.g. Euro), which gathers strength from the country's/region's competitive position or amount of surplus, then the U.S. would use its military position and international political diplomacy to ensure the placement of the U.S. dollar as the principal reserve currency.

Japan was accumulating surpluses for a period of time. During the bubble economy, there was a hollowing out of FDI flows to the countries in which Japan was doing business. Japan's domestic economy was being financed with a range of financial problems underlying the slow growth in the last decade. In the case of the Euro, wars were engineered by the US. The Euro then lost its position. The dollar again became the top currency in terms of principal reserve currency. We should think about this hierarchy in which the dollar as the reserve currency dominates. We need to address the imbalance, which is difficult to do where you have multiple currencies. There are enough financial assets and currency stocks out there to put this in international markets and drive down the dollar and create a crisis in the US economy. But the asymmetry still prevails despite the position of great strength. Therefore we have to think of ways of dealing with this.

First, we need to have a greater degree of cooperation. We need to think about the possibility of an Asian Monetary Fund, or moving step by step to the situation where we have coordinated currency arrangements and keep out Trojan horses that will cause instability to the economy. Japan would be an example of a probable Trojan horse because of its special relationship with the US.

This greater degree of cooperation can be done upon increased regionalization. The physical foundation includes a greater degree of trade, movement of capital, investment, and etcetera. You do need a greater degree of political stability, greater information among scholars, more ARENAs, more seminars that would contribute to the physical foundation.

There are other ways to intermediate flows. Surplus in one part of the world can go to the other parts of the world. Agencies like the IMF need reforming. But the IMF is fundamentally run by people in Wall Street. We have to look at the kind of recommendations of organizations like Focus on the Global South for de-commissioning the IMF and World Bank.

A question was raised in the discussion. The idea of moving from multiple currencies to lesser currencies via regionalization may not be good for local communities. There may be a way that these communities can insulate themselves and in part, be able to generate their own currency due to these transactions. In this sense, maybe it is not a good idea to have few currencies. There would apparently be a need to decentralize the currency agreement.

<u>Responses from floor</u>

Chen Min Hsu: I agree with the need for regional arrangements like currency swaps. But how should the moral hazard problem among countries be dealt with?

Sushil Khanna: The more burning issue regarding international financial architecture has not been addressed. Particularly, if there is no IMF, where can we go? Who will be the lender of last resort? If countries would even imagine the strategies being discussed here, then we would not need the IMF. Countries are vulnerable. That is why they get pushed around during crises; and the IMF imposes all kinds of conditionalities.

CP Chandrasekhar: Wall Street frowns upon the idea of an Asian Monetary Fund. If you think about reforming the IMF then you are talking about reforming Wall Street. You can't reform Wall Street.

Wen Tiejun: If the standard is not fair, and everyone knows that and wants to change that, then we should find ways of doing so. There are two groups that can challenge the US dollar. The EU punishes the US dollar due to the strong EU economies. The large volume of internal trade relative to the amount of Euros serves as a model. This translates to a healthy economy, healthy money, and healthy currency. Regarding Asian currencies, is this possible? Yes, it is; but certain steps should be taken. So let us talk about this seriously. Let us try to learn from the EU model. The EU doesn't care about the Bretton Woods.

Nicola Bullard: I appreciate the group's input. It is extremely useful to try to reframe the problem in useful ways, which highlight what we are talking about. We are talking about the balance of forces and power relations. We have heard a very useful characterization of what the problem is. It is provocative and constructive in terms of formulating strategies which go to the heart of the problem. It saves us from the slippery slope of reformism which does not do anything for the long-term.

Subramaniam Pillay: Tomorrow we shall delve deeper into those issues when Sayuri Shirai (*Asian Development Bank Institute)* will share her insights on an Asian Monetary Fund. Regarding regional financial arrangements, this requires more conferences and a lot of work. The moral hazard problem has been raised; but regional financial arrangements is not an infeasible idea. The power of the IMF must be reduced.

Johan Saravanamuttu: Reform is not enough. The whole system must be overhauled at this particular juncture of capitalism. Others think it is not possible; but others feel there is a need for radical discourse to address these issues that are plaguing the world economy today.

GROUP 3: THE POLITICS OF CAPITAL CONTROLS
Rapporteur: Joseph Lim

A. Factors affecting the possibilities and success of capital controls
   - Countries that have not liberalized their capital account have the advantage of hanging on to their policies and even strengthen their capital controls (e.g. Taiwan).
   - Countries that are financially dependent on IFIs (IMF, WB, ADB) face stronger barriers.
   - Countries with political will, social cohesion, a stronger state and higher developmental vision will have a stronger chance of success.
   - Problems may arise due to government failure. For instance, inefficiencies and corruption give rise to black markets and capital flight.
   - International and regional environment and acceptance of capital controls.
   - Quantitative restrictions are stronger and more effective than market-based controls.

B. Policy Recommendations
   - Lobby with important sectors within the country. These sectors are: business (industrial sector has a natural tendency to support stable exchange rates which require capital controls), academe, media, and government officials (open and progressive).
   - Counter the technical and logical arguments of the neo-liberal school that markets work and capital liberalization is inevitable.
   - Strengthen the technical capabilities of people's organizations (POs) and NGOs to debate in the executive, legislative, public and international fora. There should be workshops within and across countries for this.
   - Institutionalize capital controls through existing laws and regulations, which should include institutions of punishment for law-breakers.
   - Enter mainstream international discussions and debate with IFIs. There is a need for a coalition of NGOs and POs across countries to negotiate and debate from a position of strength.
   - Exchange information on, and blacklist bad financial creditors, hedge funds, etc.

Responses from the floor

Johan Saravanamuttu: The last presentation was a nice wrapping up of the day's discussions. It stimulates the formulation of recommendations that are pertinent to capital flows. This is the role of groups like ARENA- to contribute to demystifying concepts, bring them closer to people's experiences, and enable us to respond in an intellectual and cogent way to the questions at hand.

Kim Young-Chul: Stronger governance is needed. In the case of Korea, the government must have political will. The market principle is not enough to deal with capital flows. Civil society is a body that can help manage or control flows. Regional and provincial governments should also have more power.

Johan Saravanamuttu: This is an important point. Earlier, there was a point about the possibility of national currency swaps. On the other hand, there should be a greater degree of decentralization and devolution of power from the center to the local units.

Aida Jean Manipon: Living in Hong Kong, I see ordinary people everyday, watching the Hang Seng Index. When we were thinking about local governments and groups that will pressure government, I was also thinking of the whole economic mythology that actually strengthens the belief of people in investing in the stock market. When we talk about controlling or regulating inflows and outflows, we should also not forget how that comes across in societies, such as Hong Kong, where there is a strong belief in the stock market. We need to address the cultural aspect of the issue, especially when the whole mythology of neo-liberalism is very strong. Tomorrow, when we talk about our advocacy and strategies, let us combine our practical and progressive strategies with boldness and imagination. We should also be holistic.

Sayuri Shirai: The ADB Institute is working on these topics quite comprehensively. In Chile, when we talk about capital control or short-term inflows, the danger is that we might debit trade credit, which is closely related to exports and imports. Therefore we cannot easily say that limiting short-term capital inflows is always a good thing. In Chile, capital control in 1991 was used to promote exports. But evasion still occurred, despite a minimum holding period of three months and a 20% reserve requirement. Administrative cost was high due to, for instance, over-invoicing of exports. In 1992, the control on trade credit and the holding of FDI-related loans were imposed. People cheated in various ways. Evasion still took place. In 1995, more controls were introduced.

It is important to look at the impact on trade credit. Also, the coverage of controls should be comprehensive, otherwise the administrative cost would be so high and cheating would be rampant. The controls would not work. Capital controls should be temporary measures.

Rungsun Hataiseree: Quantitative control measures are more appropriate than market based measures. During the crisis, the mechanism in Thailand could not work well. I am not quite sure of the scenario during normal times. That is if quantitative control measures will be better than the market-based ones. We have to be very careful when we talk about this. We should also distinguish between crisis prevention and crisis management. We should scrutinize the benefits and costs and look at the net effect.

Joseph Lim: In Chile, market-based controls were accompanied by quantitative controls. This meant that some amount will be there for a certain period of time. Hence it was not merely a case of a plain capital gains tax.

Chen Min Hsu: During crises, quantitative based measures are better than price-based controls. Trade credit problems can be addressed by the reserve requirement ratio policy. During the last few years in Taiwan, many firms that export with a lot of US dollars deposited in overseas banks. The Taiwan dollar depreciated. That is why the central bank imposed the reserve requirement policy.

Josefa Francisco: It is appropriate to flag down what happened in the WSSD+5 (*UN conference five years after the World Summit Social Development*) negotiations. The G77 countries led by India blocked Canada's proposal to study the implications of currency transaction taxes because of the fear of the adverse impact of this on trade. Among the countries in the south, there is the real fear that trade competitiveness will be adversely affected by capital controls.

Filomeno Sta. Ana: In the case of Chile, there are costs to capital controls. But are the costs justifiable in the sense that there are other goals in mind, like arresting speculation and volatility? Academics conclude that capital controls are temporary because they are prone to leaks or circumvention. But borrowing from Stiglitz, why should we not proceed with this kind of regulation just because there are leaks? As an analogy, it is better to have a dam with leaks even if it would lead to floods, than no dam at all.

Sayuri Shirai: Merely emphasizing capital controls alone will never make the regulations work. We also have to look into the exchange rate regulation and the strength of the banking system and the corporate bond market. A whole policy package is needed.

DAY 3
(Moderator: Po Keung Hui)
INSTITUTING REFORMS: GOVERNANCE AND INSTITUTIONAL CONDITIONS

GAP: Howard's presentation

POLICY RECOMMENDATIONS FOR PREVENTING ANOTHER CAPITAL ACCOUNT CRISIS
***Sayuri Shirai** - (Associate Professor of Economics at the Keio University, Japan, and Visiting Scholar, Asian Development Bank Institute)*

This presentation proceeds from the proposition that there are two major components to the Asian capital account crisis- first, the massive volume of capital inflows underlying current account deficits; second, the composition of capital inflows being dominated by short-term loans.

The main recommendation to prevent another capital account crisis is to establish a regional financial arrangement. The rationale for this lies in the following: regional interconnections in trade and finance, the need for self-help for emergency liquidity assistance, the need for regional surveillance to complement the IMF's, and the limitations of the IMF system.

The IMF's approaches have failed because of their stringency (fiscal, monetary, and structural), their one-size-fits-all nature, and for being too little and too late. Although new financing facilities have been introduced, such as the Supplementary Reserve Facility (SRF), these still suffer from being tied to stand-by and existing financing facilities, and from not distinguishing between types of crises.

A regional financial arrangement must provide the following: lender of last resort facilities, and effective surveillance systems.

There are several existing regional financing facilities. These are: 1) the ASEAN Swap Arrangement, 2) the Bilateral Repurchase Agreement, 3) the Asian Monetary Fund (which has been heavily opposed by the IMF and the US), 4) the New Miyazawa Initiative, and 5) the Chiang Mai Initiative.

INSTITUTIONAL REFORMS AND GOVERNANCE OF CAPITAL CONTROLS
***Jacques-chai Chomthongdi** - (Research Associate, Focus on the Global South)*

Post-crisis reforms pushed by the IMF have only led to the reduction of risk and accountability of the private sector (mostly of the North), and pushed the burden of market failure to governments and the public in the South (as illustrated by the debt burden of South Korea, Thailand, and Indonesia). In many cases, IMF programmes transformed the financial crisis into wider economic and social crises.

Although reform was much talked about even within the IMF in the wake of the crisis, not a single fundamental change has been discussed. The IMF's posture of reform can be interpreted as its attempt to regain legitimacy, to disarm its critics, and even co-opt sectors of civil society. Given its deeply-held ideology and adherence to economic interests, especially of the United States, it is difficult to think that the IMF will be able to reform itself substantially. And even the proposed World Financial Authority is likely to hew to the same ideological and economic interests.

Beyond stabilizing the present system (through neutral lender of last resort facilities, capital controls, debt standstill mechanisms, managed exchange rate systems, etc.) there is a need to move away from the dominant model of economic development, which has led to subordination of the South within the global structure controlled by the North.

MACROECONOMIC POLICY, CAPITAL FLOWS & POSSIBLE REFORMS: SOME NOTES ON POLITICAL ECONOMY CONSIDERATIONS FROM THE SOUTH AFRICAN EXPERIENCE

Simon Roberts **-** *(Senior Lecturer in Economics at the University of Witwaterstrand, South Africa)*

The policy towards capital flows must always be examined within the context of broader macroeconomic developments. In South Africa, the attraction of foreign aid (both portfolio and FDI), was a major policy objective, and also an indicator of success. The policy direction chosen by the government was not due to a lack of alternative options- the important question therefore is what influences determined policy formulation and implementation.

In the South African case, the influence of big business was complemented by documents prepared by the IMF and the World Bank. It is worth noting that the country's five largest conglomerate groupings controlled more than 80% of the capitalization of the Johannesburg Stock Exchange; and for these conglomerates, relaxation of exchange controls has been a key strategic objective.

South Africa's experience raises a number of concerns for a reform agenda:

- The use of globalization and 'international business confidence' (as measured by capital flows) as a rhetorical device points to the importance of the clear articulation of alternative international examples which can be utilized by civil society organizations and government institutions.
- Cross-country communication and linkages is more important in building support for a reform agenda than additional research and policy documents.
- The 'compositional preferences' (e.g. preference for investment growth over consumption growth) of an alternative economic policy framework illustrates the need to link the reform agenda to broader debates in ways which will build the influence of progressive constituencies.
- The position and orientation of key institutions *within* the state need to be analyzed, and an advocacy agenda include recommendations on their potential role.
- International/regional agreements on capital controls will strengthen governments in relation to domestic constituencies.

Gap: Discussions after the presentations (Vickie)

MOVING THE DEBATES FORWARD

Synthesis
Joseph Lim **-** *(Member, Management Collective of Action, Professor of Economics, University of the Philippines)*

Gap

PRESENTATIONS

***Josefa Francisco** - (Southeast Asia Coordinator of DAWN, Lecturer in International Studies, Miriam College, Philippines)*

Gap

***Nicola Bullard** - (Associate Director of Focus on the Global South)*

Gap

***Hong Kyttack** - (Professor of Economics, Ching-ang University, Korea)*

Gap

***Heather Grady** - (Regional Director for East Asia of Oxfam Great Britain)*

As many of you know, Oxfam Great Britain is a charity, and our mandate is to work with others to overcome poverty and suffering. We support development and emergency programmes in over 70 countries around the world, and support programmes in nine countries in East Asia from our regional office in Thailand.

Oxfam began examining and supporting work on capital flows a few years ago, and we have a full-time Policy Adviser on capital flows in our head office in the UK. We have supported research and/or workshops in a number of countries, including a paper on 'tax havens' that has been picked up by researchers and policy makers in the EU.

In addition to co-funding this workshop, we co-sponsored a seminar in the UK in January on *Capital Account Liberalization and Impacts on the Poor*. This was done in conjunction with the Bretton Woods Project. Men (*Filomeno Sta. Ana*) attended that seminar, as did a range of government representatives from the North and South, academics, NGOs, and representatives from the IMF and World Bank.

The proceedings of that workshop include a paper prepared by Alex Cobham on 'Capital Account Liberalization and Impacts on Poverty', and critiques prepared by discussants, which we will publish prior to the Spring Meetings of the Bank and the Fund. Oxfam hopes this publication will be useful for advocacy work by civil society groups working on these issues.

Some of our staff and partners wonder why we are devoting so much emphasis to a topic as narrow as capital account liberalization, or even just as narrow as capital flows. We – the twelve members of Oxfam International – are now gearing up for a global campaign on Trade to begin in April 2002. This work has several themes, some very broad, including 'small producers in global markets', employment practices of TNCs, agricultural trade liberalization and food security, trade and the environment, and the impacts of regional trade agreements. As our small group discussed yesterday, capital account liberalization may not be the primary policy prescription that is interfering with poverty reduction efforts, but it is one that we cannot ignore, and one that relates to many of the broader trade themes listed above.

In this workshop we have noted the trend on liberalizing capital flows policy globally: the norm until two decades ago was tight controls on capital flows; it changed to a situation of conditionalities imposed for opening capital accounts in the 1980s and early 1990s; and has come to a situation today where advice from the IMF and the MDBs is more cautious.

Someone said earlier that the IMF is now on the defensive about this issue. It is true that the IMF has dropped plans for the formal inclusion of capital account convertibility as a Fund mandate in the Articles of Agreement. But we can see that the international community is pursuing the same objective through other means. This may be through the adoption of the international codes and standards that imply capital account convertibility; through WTO commitments on financial services; and possibly through other mechanisms like Poverty Reduction Growth Facilities and PRSPs of the Fund and the Bank.

In this workshop we have identified at least two broad arguments against unchecked capital flows. One has to do with the autonomy and ability of a government to design and implement its own economic and social policies for the benefit of its own people. The second has to do with direct or indirect negative impacts on the poor, or on inequality levels, due to capital inflows or outflows. Oxfam intends to pursue work on capital flows looking at both of these areas, mainly directed at policy recommendations embedded in global institutions or northern governments.

Yesterday I raised the question about what levers we have to challenge or influence: national governments, the IMF, multilateral development banks, the donor community generally, and public opinion. The current orthodoxy appears to be far from the perspectives we have been sharing in these three days. At our January seminar, the IMF representative said, 'tracing the relationship between capital accounts liberalization and poverty is too ambitious a task…it is remarkable how little we know about the relationship between macroeconomic policy and poverty, or for that matter what government expenditure policies help the poor in the longer run'. These are astonishing statements. The World Bank representative, Art Kraay, concluded that, 'there are no clear conclusions,' and refused the burden of proof being placed on those who are *promoting* capital account liberalization policies.

We can dismiss this as shortsighted, but we can hardly dismiss these institutions as irrelevant while they negotiate policies with countries throughout this region and beyond.

Oxfam would highlight several types of work that should be useful and that we would want to support, framed around these four questions:

- Who gains and who loses over the course of financial cycles, and where is the evidence of the poor losing more or gaining less in busts and boom periods?
- What are the consequences of inflows for wages and employment, especially in sectors and regions where the poor live and work?
- How does the 'policy discipline' imposed by financial openness weaken the ability of governments to engage in pro-poor fiscal policies?
- What specific capital account restrictions can help countries benefit from integration with global markets, while reducing risks?

Specifically, we could support work in the following six areas:

- At its most ambitious, we think that more work could be done on longitudinal studies that look at specific episodes of lifting or imposing capital controls, and fiscal policy outcomes in terms of government spending compared to GDP, public spending on health and education compared to total public spending, and inequality and poverty outcomes, as measured through Gini coefficients and standard poverty measures – combining quantitative and qualitative research.
- We can also do better documentation of the chain of cause and effect, and the chain of events, that occur with surges, in or out, of capital flows. And these must ultimately be presented in language that lay people can understand.
- We can more systematically monitor a selected group of countries to examine the *explicit*, the *tacit*, and the *informal* mechanisms being used to force open capital accounts. This could be incorporated within the PRSP-related work that Oxfam, Focus and other NGOs are doing in Cambodia and Vietnam, for example. We could also share information on innovative control mechanisms in countries like Taiwan, for example, that have had very little publicity.

- We can also monitor, more rigorously, the capital account liberalization measures included in WTO, bilateral, and regional trade agreements.
- We would like to see a serious reconsideration of the two issues of a) the hazards of high levels of public debt, and b) actual job creation performance of FDI – these two 'myths' must be 'busted'.
- Finally, I think we need a much better 'consensus ground' on which to move forward in training and awareness-raising on these issues. This workshop has been useful in framing and debating the relevant issues. If ARENA or another institution were prepared to adapt this to an event that could be used to popularize and demystify the subject of capital flows in locations throughout East Asia, Oxfam would be very interested in linking with and supporting such a measure. I see two problematic aspects to this last suggestion. The first is as follows: The diversity and depth of the speakers at this workshop has been excellent. How can we replicate this in a standard module without bringing along the whole group of resource persons? And second, how do we compress the debates we have had to make it more accessible to a wider audience, without losing the provocative and constructive alternatives we have raised?

I hope that we can pursue some of these ideas this afternoon. Thank you.

<u>Responses from the floor</u>

Jessica Reyes Cantos: I would like to ask Heather to expound more on busting the myths of the hazards of high levels of public debt, and actual job creation performance of FDI.

Heather Grady: For instance, our own staff and partners in Indonesia are terribly concerned about what's happening to the economy because of the government taking on such a huge public debt. The debt to GDP ratio is possibly unprecedented in history. It seems that it is not given as much attention as it might be. It does strike a cord with people, even if people cannot understand all the technicalities in capital flow issues or capital account liberalization issues. It may be easier to approach the issue from the question of public debt since they are so intertwined. So it's just a way of opening up and having a more democratic discussion on economic policy.

Nicola Bullard: One important thing that I neglected to mention refers to a piece of research that Jacques-Chai Chomthongdi was also involved in. The research is a series of case studies on the state of debate on Tobin taxes in several Asian countries. The paper is available at the front desk. That gives us a very good starting point at least to get some assessment of where the gaps are and the current state of debate on Tobin taxes. What was clear from the country studies on Indonesia, Philippines, Thailand, Malaysia, Japan and South Korea was that the debate on Tobin taxes is very patchy and in some cases has not developed at all. The Tobin tax/capital controls debate is in fact really limited to a few NGOs and a few academic institutions and occasionally some government policy officials. The debate is obviously more widespread in Malaysia because of the experience there. But I think the report is very interesting to read because it gives some indication on the sort of key questions that we need to be asking and the magnitude of the job in terms of mobilizing public opinion and education. The paper is not for circulation because it is not the final version; but it is nonetheless a useful piece of research.

Reports from Buzz Groups: Strategies for Future Action and Cooperation

Group 1

The World Economic Forum will be held in Hong Kong soon. Should we explore the opportunity to mobilize groups to take part in a parallel event? The group called Globalization Monitor, which is based in Hong Kong is planning a workshop series slated on the same date as the WEC. Issues of globalization and liberalization will be taken up. But considering how conservative and inward looking Hong Kong society is, maybe it is not such a good idea to mobilize this parallel event in Hong Kong?

The opportunity to raise the debate on development financing was brought up in the discussion. In this light, consultations should be organized. The main goal is not really to cover the whole agenda, but to make strategic inputs into the process.

Group 2

The interest of this group, which covered issues in Indonesia, India and China is on political stability. Despite the fact that Indonesia has problems in terms of financial crisis in the past years, groups in Indonesia have formed no clear strategy. In the case of India, the country escaped a large part of the crisis because it is not really integrated into the global market. Reforms are there, but done in much greater caution than what is portrayed. Reforms are very slow due to coalition politics, insecure domestic regimes, and external influence (despite the relatively closed economy). Criticism from the left does not make a dent because of the left's limited clout. NGOs are merely symbolic and are not really effective on the ground when it comes to mobilizations, despite their active participation in various forums. The hope is that international actions will be a driving force that can make up for the lack of internal ability. In the case of China, there are no NGOs. There are no lobbying mechanisms. But certain groups of Chinese are thinking of what is happening because the rosiness that is felt now is not likely to last in the next decade due to problems created internally.

Future action is likely to be somewhat more of the same. That is, greater reliance on international and regional forums in partnership with other groups so that there would be greater influence on international financial institutions.

Group 3

There were a lot of points raised in the discussion but no consensus was arrived at. To summarize, there are three major issues.

First is to mobilize the most affected social group, the working class, in order to have a social impact. In the case of Korea, I had the opportunity to see for myself how the Korean workers were reacting and organizing themselves and discussing the issue of confronting the IMF and the policies that their government was carrying out. It occurred to us that it could be a major civil society effort to organize a regional conference that would bring together workers or trade unions in this area to have a joint discussion on these problems. Workers in India have also been quite active. Focus on the Global South is already having something in March which is going to bring the unions into this process.

The other issue is how to make governments take action on the issue of the Tobin tax. The Korean government does not seem very well disposed to the idea. In Malaysia, capital controls are already there. Generally there was no satisfactory agreement about the issue.

The third area concerns the intellectual hegemony which neo-liberalism exercises especially among the leading economists. There is a need to take these issues to the academic community. We can organize more conferences to bring them in, challenging them and trying to break this hegemony because this is also something which has to be fought and won, although again we in the group did not come to any specific discussion as to how to do it.

Group 4

The discussion was not really about strategy in terms of actually mobilizing people, but more on what we need to look at. One thing has happened in the international financial architecture. The IMF in particular, and the World Bank to a certain extent, has been able to establish that there is not too much that can be done other than simple things like greater transparency, more information, data standards, some degree of additional central bank supervision. In effect, the situation is still best left to the markets. It is important to develop the argument that there is an inherent problem in practice as opposed to what pure theory says about market failure and financial markets, etc. In practice there is an inherent tendency in the way finance develops that makes it difficult to control. We can talk about Tobin taxes and other mechanisms. All of these can be suggested; but there is something about the structure of finance itself. It is important to look at what happened after the crisis. There is a lot of talk about what is happening in terms of major corporations, of industries being taken over. But what is exactly happening in the financial system? In India, it has been a period of major bank mergers. Most of the major banks are moving into the insurance industry, which is now open to international capital. Are we now creating a financial structure in these countries which involve a greater degree of integration? Unless you do something with policy about the structure, it would be very difficult to tinker at the margin. Maybe a regional effort to understand this is needed. The other thing is that we should take the advocacy beyond the level of just controlling capital flows. We do need to look at the fact of whether it is possible at all. Is it possible to move in terms of more specific degrees of integration in the financial plane? Regional structure and differences make this difficult.

Responses from the floor

Simon Roberts: There is already a range of existing research; the key is not more research. Instead, it is to make this information available and accessible. It is important to link it to particular constituencies, and to demonstrate the impact on workers or on other issues like land reform- government spending would be affected and in turn, the needed spending on land reform would be curtailed. This in effect impinges on the speed and pace of the reform process.

Kim Young-Chul: After the financial crisis in Korea, there was a combination of civil society and labor activities. Before the crisis, these two groups were strictly divided due to different ideologies about government economic policies. They were forced to act together to address capital flows. This is a significant difference from the previous situation and may be applicable to other Asian countries too.

SYNTHESIS AND RESPONSE FROM ARENA AND ACTION FOR ECONOMIC REFORMS
AIDA JEAN MANIPON
Coordinator of ARENA

It would not be fair to call this a synthesis because I would not be able to do justice to what I think a synthesis should be. I will probably just call it a response on behalf of ARENA which may also serve as concluding remarks to the whole event.

First of all I would like to review the whole idea and history behind the workshop. We had started to talk about the need to do some sustained research work and collaboration on the whole issue on capital flows as early as 1997, immediately after the Asian crisis broke out. The idea then was to collaborate on a research project. At the time we were also involved in a lot of things. We also saw that there were a lot of initiatives already being carried out. And these did not only come from the non-government sector, civil society organizations or the social movements. There were also a lot of conferences even in mainstream academia that were being held and so were research work.

A year ago we were thinking of stimulating a kind of a dialogical process. The preliminary concept for this workshop was a dialogue where we could find common proposals or start developing collaboration on common areas of advocacy. Even mainstream economists had already begun to be more vocal in advocating policies that would at least mitigate, if not arrest the volatility of capital flows. We thought of getting a few of these well-known economists and thinkers along with civil society organizations and groups that were already doing work or campaigns on the issue.

We were also concerned that it must have tangible results in terms of coming up with a strong core of concerned scholars and activists who would be committed to take the issue further beyond the debates to actual advocacy and alliance work on that issue. We felt that is the most important thing that should come out of the workshop.

Now that we are on the final stage of the workshop, I am trying to review where we are in terms of what we hoped to do. I am personally stimulated by the diversity of the participants who have come to the workshop. We have economists, academics, activists, networks who are already involved in this issue, and a significant although not full representation of countries that should be here. It is just unfortunate that we do not have representatives of civil society groups in Japan.

Heather earlier talked about finding common ground. I think this is something important for us to think about. With such diversity of ideas, participation, perspectives, experiences and strategic positioning, it is not easy to build common ground in one workshop. While there are some points that we obviously have consensus on, for example there must be certain controls and forms of regulations that should be put in place, there are still many differences on what types of controls or what forms we should take on what levels, applicability, and how it will be done. We did not have the time to fully flesh out these issues.

There is a lot of excitement and unanimity when we talk of putting regional arrangements like the Tobin tax in place, and about reforming the IFIs – whether radically, or instituting medium-term reforms. At the same time there is also Chandru's point on how we take the advocacy beyond the capital control issue. Given these differences, where do we find the common ground or platform? In the next several months, I hope all of us will be able to go back to our organizations, and universities and reflect on a common platform across boarders, countries, and sectors. Let us reflect on how we could build that common platform from here.

Secondly, there is also unanimity that this issue rests a lot on mustering enough political will not only among governments but also with respect to public opinion. The latter will serve as a watchdog or as a pressure group or as a support to build that political will to institute needed reforms.

There are very specific recommendations and suggestions from Joseph's group that we can work on. We have to really do our share in that. ARENA itself is limited. It is a regional organization of concerned scholars in Asia which engages in some of these advocacy campaigns but is more into facilitating and promoting research and exchange of ideas. I am hoping that ARENA will continue to be interested and will participate and sustain this interest in this issue.

We would be needing the cooperation and collaboration of other groups to contribute to a regional public awareness campaign. Maybe we could look at an education campaign where there are speaking tours. Would this be helpful in your own national campaigns and initiatives?

Thirdly in terms of capability building of NGOs and movements, there is a lot to be done around that. Joseph was also mentioning that NGOs and POs are important actors in this advocacy. But they seem to be intimated and hesitant to take up the issue of capital flows because of its highly technical nature. We will need your intellectual resources, energy and contributions to capacity building.

One idea is to strengthen a network of economists within Asia. Because of the impact of the crisis, so many people who were not interested before are now interested in the issue. Economists and those from the banking community have come to pay attention. Even with existing differences, new alliances could be formed both locally and regionally. The likes of Dr. Chen who have been working with the ADB Institute can perhaps help us. So I hope NGOs and other groups can have access to the resources that institutions like ADB have.

There was also a suggestion to have a regional campaign which goes beyond an education campaign in terms of a stronger impact. This action will take the common regional agenda to the structures of power or to the institutions and agencies that actually have to be the ones to implement the reforms. That is something we really need to think about.

ARENA, ACTION, Third World Network, Focus and other regional groups should also think about whether there is feasibility and capability to carry out a regional campaign. We need to locate that in the map of several initiatives that are already happening at different levels.

There is also an idea of creating task forces or special working groups that would deepen and sharpen the work on specific issues. Examples of the latter are linking capital flows with trade. Special research on some of the new areas can be done or linked with the work of other researchers who are doing something similar.

A number of those specific issues have already come up in our discussions. We really feel that we have to enhance our capacity to articulate the issues. An example is linking capital flows with social policy or issues of poverty or the wider issue of development paradigms. Joseph's group was talking about intellectual hegemony. That is one whole area that we also need to engage in. We should contest, challenge, and construct paradigms.

Another issue that I personally felt was not tackled so much due its weak link with the policy advocacy is the whole socio-cultural aspect and the whole kind of economic mythology that is part of the intellectual hegemony. When we are talking about engaging, challenging and contesting the intellectual hegemony, it is also a cultural hegemony. It is a whole economic mythology which permeates the everyday lives of people, at least in Hong Kong. There is strong faith in the stock market and currency speculation; and this does not apply only to the elite families of Victoria Peak, but even to ordinary people.

Those are just some of the things I am looking at. There are several people from ARENA people here in this workshop. I hope they will be able to take this back and try to plan out further work along with other groups like Action.. I was really torn between doing a wish list of all the things we want to do and need to do, and on the other hand coming up with just a general kind of commitment of promising that we will do something about the next steps. But initially I feel the workshop has generated gains among us to be sustained for the next few years even perhaps more.

I will leave all the other questions to Men. Before I turn the mike over to him, I express my thanks and appreciation to all the participants and resource persons, some of who were given very short notice because they were requested to replace speakers who at the last minute begged off. Secondly, I give thanks to organizations and agencies who generously contributed to the event. And the workshop would not have been organized in this way without Lot's expertise and competence; and we are very grateful to her. Thanks too to other ARENA colleagues. Thanks as well to our co-organizer ACTION, who despite the fluid situation and volatility in the Philippines, was able to sustain its interest and assistance in organizing this event. Thank you very much again and we hope this will not be the last time we will talk about this and work on this together. I hope that again, the workshop does not merely end with some nice report; but that we will really go back and work on it.

FILOMENO STA. ANA
Coordinator of Action

I do not wish to be redundant so what I will do is narrow down Jeannie's shopping list, as well as highlight the points raised throughout the workshop.

Let me begin with my own feelings about this workshop. I really found it worthwhile and very enriching. The sharing of national experiences was very rich; and I do hope we can disseminate these experiences and the lessons behind these experiences, perhaps through national workshops. Perhaps a more efficient way is to publish the papers.

I wish to cite the example of Taiwan. The Chilean model has usually been the point of reference. But the Taiwanese presentation here provided a more sophisticated model of managing capital flows. That can be one of our contributions to the global discourse on managing capital inflows.

I am also very impressed at the modesty of the Malaysian presentation. Subramaniam said it would be difficult to say that capital control was the main factor that stabilized the economy. However, he still acknowledged that capital control was a necessary component of the stabilization measures.

China remains mysterious to me, indicative perhaps of the need for more contact with our comrades and colleagues in China. The impression that one might get on the surface is that China is leaning toward more opening up. I guess that is the trend in transition economies, even if the majority here would want China to be cautious. It really is a complex situation; and I hope we can learn more about China.

Indonesia has the opportunity not to show how fraudulent or corrupt debt can be repudiated or cancelled. The Philippines had that opportunity 15 years ago but failed to do so. Now there is another opportunity to pursue the case of fraudulent debt. At the same time, this might be an opening for a debt reduction initiative for middle-income countries since in the last decade, the focus has been on the debt of low-income countries.

The Indian example is also worth mentioning. To me, the lesson there is that capital controls by themselves cannot prevent all the problems that we have been discussing. What really matters is the quality of capital controls, and more importantly the political economy of managing capital flows.

In short, there were so many lessons learned from this workshop; and I do hope we can disseminate this to a broader audience especially our constituencies at the regional and national levels. That said, we can move ahead.

There is a strong consensus that we should address the issue of excessive capital flows beyond conventional prudential regulations. Of course there are different motivations behind that. For instance, others would view capital control in the context of arresting speculation and volatility. For the rest, this issue is a springboard to transform the world.

What is nice about the composition of this group is I guess we all belong to a progressive tradition. But I like to use Howard's term 'radical incrementalist'. We can even have more variations: radical incrementalist, or revolutionary radical. But in China, the context is very different. When says he is a conservative! So we really have a spectrum here.

I would support what was discussed earlier in the panel, which Jeannie also reiterated. We need some capability building workshops. I would categorize these workshops in two. One would be the more activist-oriented and in this context, more work on popular education is necessary. How we can translate our language into popular terms is important so we can have a broader constituency for our advocacy. That would also mean linking immediate issues around the management of capital flows with other development concerns: poverty reduction, inequality, trade etc. I also see the need to develop alliances beyond the community of radical incrementalists, revolutionaries and Chinese conservatives.

Regional advocacy as opposed to national initiatives need further elaboration. Examples are the issues of regional financial arrangements, giving more flesh to the circuit breakers, and even the Tobin tax. They might be applicable at the supranational level but not at the global or Asian levels. We need to think about this more. There is a suggestion to form an e-group to develop these ideas further. Either ARENA, Action, or anyone here could take the initiative of moderating that e-group.

Finally as pointed out by Chandru, we should go beyond the issue of managing capital flows. Of course there are divergences; but precisely that creates the condition for more dialogue among us. The broader issues beyond management of capital flows could be part of this e-group or any other network.

The issue of regional integration is one issue that even the mainstream is contemplating. So we should not be behind that discourse. Another issue is developing the argument regarding inherent market failure of the financial market or system. I hope this continuing dialogue in the regional as well as national levels could strengthen not only regional integration, but also our regional solidarity.

VOTE OF THANKS
Lot Felizco
(Workshop Coordinator)

I can tell that this is probably the moment that you have all been waiting for!

Seriously I will keep this brief, though it is no less heart felt. Thanks to the people who contributed to and supported this workshop. I would like to start with people who did not actually make it here due to very full schedules, or some unexpected circumstances that transpired days before the event. Though they did not make it, they still sent papers. I would like to call your attention to those papers, which you have in your kits. To start with, the paper of Stephany Griffith-Jones from the Institute of Development Studies in Sussex, Professor Chan Keun Lee from Korea, Yilmaz Akyuz from the United Nations Commission on Trade and Development, and friends from the UN Economic Commission on Latin America and the Caribbean- Ricardo French Davis, Manuel Agosin, Andras Uthoff, and Luis Felipe Jimenez. And lastly, Kavaljit Singh who has a short paper on Indonesia in your pack.

I would also like to take this chance to thank those who supported this workshop financially. First off, Oxfam Hong Kong, which also had staff here with us for the past three days. Second, to Oxfam Great Britain; and we also have Heather here with us. And NOVIB, Christian Aid, and the Heinrich Boll Foundation of Germany.

I would like for all of us to say a big thank you to the staff who are working at the back and outside the doors of this room: from Action- Vickie, Tina and Marivic; and from ARENA- Amy, Ah King, Kathy, and Aditi.

Also a big thank you is due to the speakers, some of whom were informed at very short notice. I am thinking particularly of Indah, whom we asked to prepare a paper a day before she came. And also thanks to our moderators- Harsh, Gigi, Johan, and PK, and those who moderated the small group workshops-Sushil, Heather, Wen, and Joseph.

Finally, thanks to all of us because we made this workshop fruitful and interesting through generously contributing our own experiences and insights.