

Statement

by

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Your Excellency Prime Minister Patterson,
Excellencies, Distinguished Delegates,
Ladies and Gentlemen,

It is a great honour for me and the Indonesian delegation to attend the **Ninth Summit Meeting of the Group of 15** in this beautiful resort city of Montego Bay. It is indeed appropriate and meaningful that we should be convening this meeting in Jamaica, a beautiful country that has much to share by way of experience and insights derived from its long and valiant endeavours to deal with the challenges of development.

May I at the outset, on behalf of my delegation, express our sincere gratitude to Your Excellency and to the Government and the people of Jamaica for the warm hospitality extended to us since our arrival and for the excellent arrangements for this Meeting. I wish also to convey our great appreciation for your inspiring and thought-provoking inaugural address.

Let me also seize this opportunity to welcome Sri Lanka as a new member of our Group. Sri Lanka has worked closely with Indonesia for the cause of development in many international forums and I am confident that with Sri Lanka working with our Group, we gain considerable strength in the pursuit of our goals.

Being an active member from its inception, Indonesia continues to attach its strong commitments to the goals and noble causes of the Group of 15. In the view of my Delegation, this meeting is a very important Summit as it is addressing one of the most urgent issues of our time: the global financial crisis.

President Habibie had therefore looked forward to attending this meeting personally. Unfortunately, however, matters of great urgency at home have constrained him from joining us here. He has, however, instructed me to speak on his behalf and to convey his sincere regrets to Your Excellency and to the Distinguished Heads of State or Government who are gathered here today.

Excellencies, Ladies and Gentlemen,

Since our last meeting in Cairo eight months ago, the international community has continued to bear the fury of the economic and financial crisis that broke out in East and Southeast Asia in the middle of 1997. The road to recovery is long and winding and the prospects of the

world economy in the next few years seem rather uncertain as the so-called Asian crisis begins to reveal its global character.

I would like to address this issue from the perspective of one of the most severely affected countries by the crisis. The crisis in Indonesia has not only affected the economy, but has also magnified our social aggravation and has created political instability. The resolution of the crisis therefore has social and political dimensions as well as economic.

Only a little over two years ago the world economy was enjoying significant growth for the third consecutive year and the outlook for the future appeared bright. This was particularly true of the East and Southeast Asian economies that had manifested robust growth rates for decades and had come to be celebrated as economic powerhouses and miracles. Today those annual growth rates of eight to 10 percent have been replaced by severe economic contraction. Output has sharply declined and no economy in the region expects to register satisfactory growth this year and the next. Indeed, the international community was shocked by the suddenness of the debacle.

The fact that the Asian crisis has been particularly harsh on those economies that have been liberalizing financial flows and investment for a good number of years should send a message of caution to the entire developing world. And since the affected economies account for a quarter of world trade, their current plight will surely have an adverse impact on countries in other regions.

The Asian crisis may turn out to be an episode in a regular cycle of global crises. Many believe that unhindered capital flows, supported by even more sophisticated technology, will be the feature of the new age that we are entering now. We cannot prevent volatility and contagion in the global finance, but what we can and should do is to manage it, so that the swiftness of their currents, and the impact on economies, especially the emerging economies will not be devastating. It is like the fluctuations of the prices of commodities that we have learned in the recent years to live and to cope with, through diversification and industrialization.

Excellencies,

The financial crises have become now the central challenge to the international community. A number of initiatives and measures to address this gigantic problem have been launched at various levels, but there is still need to go deeper into its roots. A greater understanding of the causes and nature of financial crises is essential for their better management as well as for designing policies to reduce, if not the likelihood, then the predictability and the impact of their recurrence.

UNCTAD in its Trade and Development Report of 1998 has stated that contrary to tenets of financial orthodoxy, the Asian crisis did not stem from the resistance of the affected economies to a globalizing world and the discipline of global market forces. What brought about this crisis is basically our failure to manage the integration of their financial systems into the global capital markets with the same prudence and skill we had earlier shown in managing trade liberalization.

This means that we cannot and should not leave the conduct and process of financial liberalization solely to market forces, let alone fund managers and money traders. Governments must assume their proper and necessary role in directing the pace and course of this process. And our Group must now pursue with even greater vigour our advocacy for an effective mechanism to supervise and regulate international money markets so that they would become more open and transparent. Such a mechanism should also be able to carry out surveillance of capital markets and international financial operations.

We already have a mechanism of this nature in the field of international trade: the World Trade Organization (WTO). There is no reason we cannot have a similar mechanism in the field of financial and monetary flows if it means the difference between order and chaos in the global economy. In short, it is imperative that a new set of international financial paradigms be established and that our Group should be actively involved in the design and formulation of such a regime. In this regard, we recommend that the G-15 immediately devise a strategy and document its position on this issue as a guidance for our representatives in the G-24, G-22 and in all relevant forums. For this purpose, it would be advisable to form a task force of economic and financial experts to formulate the G-15 strategy and position on a new international financial regime.

With the hindsight of the recent Asian crisis, I wish to point to the need to strengthen the international monetary architecture so as to allay future crises. The new architecture should center on the following pillars, namely: *first*, strengthening the international and domestic financial systems, including particularly prudential supervision; *second*, strengthening the IMF's surveillance, with more emphasis on financial sector issues and capital flows particularly policy interdependence and risks of contagion; *third*, establishing more transparencies and more current information on private capital flows; fourth, more effective procedures to involve the private sector in forestalling or resolving financial crises, such as making creditors more fully bear the consequences of their actions; *fifth*, discouraging excessive reliance on short-term financing; *sixth*, strengthening countries' capacity to withstand sudden shifts in market sentiments; and *finally*, promoting the orderly integration of international financial markets, including capital account liberalization.

Having said that, we believe that even if finally we are able to restructure the international financial system it is not a substitute to our **internal discipline**. Indeed, this 'internal discipline' is of paramount importance to prevent damaging and exaggerated moves when a country choose to let financial markets to operate freely. There is nothing wrong with the market system in itself. Indeed, historical evidence has shown that it offers an opportunity to reap the benefit of globalization if it is managed properly. What is important is to eliminate our weaknesses through continuous and consistent effort, so as to prepare a sound economic foundation that will enable us to withstand future shocks.

Excellencies, ladies and gentlemen,

It is interesting to note that the UNCTAD Report also states that the Asian crisis in fact was precipitated by financial liberalization that rendered economies vulnerable to external forces and not by inherent flaws in the fundamentals of these economies as often bruited in some circles. In retrospect, we have now realized that in the years preceding the Asian financial crisis, economic liberalization was pursued without sufficient attention being given to ensuring that proper economic and supervisory structures were in place to support and to promote it. There is strong evidence world wide that there is a higher probability of financial crisis following liberalisation without improved prudential safeguards, even in industrial countries.

Therefore, banking and capital market reforms, oriented toward better risk management, are critical in any strategy to prevent financial crises. Public policy and institutional reforms and improved corporate governance are equally essential to support the safety of the financial system.

It is the course that we are taking in Indonesia to overcome and to recover from the crises and regain our growth momentum. Apart from consistently adhering to open capital account and full exchange rate system, we continue to pursue sound fiscal and monetary policies, We are

expeditiously improving our banking system through bank restructuring and recapitalization, while improving financial prudential regulation. We have also launched an initiative to encourage corporate debt resolution and are continuously working on improving our country's debt structure. We are pushing ahead with structural reforms, improving transparency, eliminating monopolies, establishing level playing fields, to assure the efficiency and competitiveness of our economy as well as the sustainability and equitability of our future growth. We are in the process of reforming our legal infrastructure to support good public and corporate governance. This strategy has shown some results, as our economy is now on the way to its recovery.

In this process we have the support of the international community. We may voice different views with regard to the role of international financial institutions. Although the working relationship with those organizations, such as the IMF and the World Bank has not always been easy, in general we have been happy with the cooperation. We feel that as members of those organization, it is our rights to have their support and to tap their resources, without having to compromise our sovereignty and our rights and capability to decide our own destiny.

The new global economy demands that while we continue to undertake wide ranging economic reforms and restructuring, we must persevere in liberalizing our economies, to be more adjusted to market economy. We are pursuing this objective through WTO, APEC, and in South East Asia through AFTA. In the midst of the crisis, we are not retrenching and holding back on trade and investment integration in our region, in fact we are accelerating our regional economic integration on our way towards global economic integration. In Hanoi in December 1998, the members of ASEAN have agreed to advance the schedule of a free trade area within the ASEAN region from the year 2003 to 2002 and an investment area by seven years from 2010 to 2002.

While addressing the issue, I also wish to bring your attention to the role of the international rating agencies in the recent crisis. In my view, the international rating agencies should contribute positively to the maintenance of the international financial system rather than aggravating the crisis. It appears, however, that on several occasions they fail to exercise due caution in their assessments on a country's economic developments that result in further exacerbating the crisis. This is mainly because during a crisis, market sentiment tends to take for granted negative rather than positive developments. Therefore, we should insist that those rating agencies not only disseminate negative reports, but also immediately announce improved ratings once favorable developments have emerged in a crisis country.

Excellencies, ladies and gentlemen,

On the matter of South-South cooperation and intra-G-15 cooperation, it may be recalled that at the Kuala Lumpur and Cairo Summits, the Heads of State/Government agreed to take bold actions to enhance our cooperation. It is indeed advisable that we bolster our trade and economic cooperation by, among others, forging trade and investment agreements between our members. In this regard, we highly appreciate the efforts of Jamaica as Chairman of the G-15, in cooperation with UNCTAD, to convene a meeting of our respective investment officials in Geneva so that they could begin negotiations towards bilateral investment agreements. This is a commendable initiative that should be built upon by the next Chairman of our Group and the Chairman of the Committee on Investment, Trade and Technology (CITT). The conclusion of the envisioned bilateral agreements to promote trade and investment will, I am sure, give a tremendous boost to our efforts to contend with this crisis.

Considering that each member of the G-15 is among the dynamic economies in its region and also a member of one or two regional economic groupings, an increase in trade and investment relations between members of the G-15 may be expected to contribute to the growth of cooperation between and among regional economic groupings. This form of cooperation offers developing countries the benefit of expanded markets and new opportunities for exchange of views and consultations on various global economic issues. At a time when access to the markets of the developed world is becoming increasingly difficult, it is particularly important that developing countries find new effective ways of consolidating their efforts and maintaining their cohesiveness in trade negotiations forums such as the WTO.

It was for this purpose that Indonesia, in its capacity as Chairman of the Group of 77 for 1998 and in cooperation with the UNDP, convened the G-77 meeting on Regional and Sub-regional Economic Cooperation in Bali last December. During this meeting, regional and subregional groupings were able to exchange views and explore ways and means of strengthening and expanding cooperation between and among themselves. They also took stock of the global situation and discussed ways by which they can promote the interests of the developing world.

The outcome of this meeting has convinced us all the more that South-South cooperation at the regional, sub-regional and inter-regional level will not only promote the economic growth of developing countries but will also soften or deflect the adverse impact of globalization. Through this enlarged form of South-South cooperation, we can prevent our marginalization in the international decision-making processes on economic issues. I therefore urge that we take a closer look at this form of South-South cooperation for I do believe that our Group could play an important role in nurturing and strengthening cooperation between and among regional and sub-regional economic groupings.

Excellencies,

In concluding, the current disarray in the developing world calls upon our Group to assume greater role in addressing our common problems and promote cohesiveness. There are a number of trade issues before the WTO on which the developing countries could not agree among themselves. While this is understandable in the light of the differences in their levels of development and the immense variety of products that they export, developing countries should not allow themselves to be weakened by dissension in the face of pressure from the developed countries in the negotiations on trade issues. The consultations and harmonization of positions that we conducted prior to the first and second WTO Ministerial Meetings served us well in the negotiations that ensued. We should do no less again this time as we prepare for the third WTO Ministerial Meeting in Seattle next November.

In the ultimate analysis, our greatest asset is the combination of our perseverance and our solidarity, our capacity to speak with a single, amplified voice in the halls of international decision-making on economic policy. If we make full use of that asset, we have an opportunity to rise above this global financial crisis and begin to demolish the obstacles to our development so that we can stand as credible partners of the developed world in addressing the persistent, systemic economic problems of our time.

And thus we help shape a more just, more equitably prosperous world order.