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GROUP OF FIFTEEN

G-15 COUNTRIES AND THE CURRENT FINANCIAL CRISIS

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Introduction

Aware of the devastating effects that a global financial turmoil can have on economic growth and poverty alleviation, G-15 Heads of State and Governments have been stressing the necessity of a secure international financial system that is transparent and fosters the harmonious growth of all participating economies, rich or poor. As far back as the Eighth Summit held in Cairo in 1998 in the aftermath of the Asian financial crisis, the Group had cautioned, "*there is an urgent need to review the existing international financial arrangements and to ensure their adequacy in the face of the rapidly evolving financial markets. We therefore support the call made by the G-24 to strengthen and coordinate the work of institutions for financial market surveillance and supervision, and to pursue discussions and studies in respect of international arrangements for the supervision and regulation of financial markets and institutions*."[1] This sentiment was reiterated at the Ninth Summit held in Montego Bay, Jamaica in 1999, when G-15 leaders expressed concern at "*the slow pace at which progress is being made in reforming the international financial system,*" and urged that "*concrete steps need to be taken to develop …mechanisms and adequate rules to monitor and supervise the operations of large financial market players, including hedge funds and currency speculators*."[2]. Again, at the Twelfth Summit held in Caracas in 2004, the Group demanded the voluntary adoption of standards and codes that promote greater degree of transparency in international financial issues and called upon the international community "*to promote all those measures and actions in financial institutions that will contribute towards international financial stability …*"[3]. It is therefore obvious that G-15 Heads of State and Government had been anticipating a global financial crisis with its origins in the inadequately regulated operations of financial institutions of the rich world. Such a crisis set in around the end of 2007 and continues to wreck havoc in many economies of both the rich and developing worlds.

Nearly all the G-15 countries have been in the throes of an economic crisis one time or the other during the past quarter of a century. Thus, a policy of rapid financial liberalization accompanied by inadequate regulation of the banking sector is said to have caused the economic downturn in Indonesia and Malaysia during the Asian financial crisis of 1997-98. Earlier, in the 1980s, G-15 countries like Mexico, Brazil and Argentina had followed a policy of borrowing excessively from the international capital markets to finance their industrialization and infrastructure, leading eventually to what became known as the "Latin American debt crisis". What distinguishes the current threat to the economic development of many G-15 countries is that the current crisis has emanated not from within, but from the developed world.

[1] Paragraph 9 of the Joint Communiqué, VIIIth Summit.
[2] Paragraph 7 of the Joint Communiqué, IXth Summit.
[3] Paragraph 11 of the Joint Communiqué, XIIth Summit.

Origins of the crisis

The current financial crisis was triggered off by a collapse in the value of certain financial instruments relating to the housing sector of the United States of America that were held by banks and other non-banking financial institutions. These financial instruments, called 'collateral debt obligations' or CDOs[4], were basically housing loans taken by US consumers to which were added car loan debts or credit card debts, that were then repackaged and sold as innovative financial instruments in the market after being awarded superior ratings by established credit rating agencies, in disregard of the true risk underlying the original loan[5].

The reason why CDOs easily sold in the market was that, apart from the superior rating assigned to them, there was a housing boom taking place in the USA facilitated by a low interest rate policy of its central bank. This meant that there was a continuous rise in the market value of these financial instruments, which made them an attractive investment opportunity. Investment banks and non-banking financial institutions, mostly from the US or Europe, invested heavily in them. US consumers too were enticed by the rising values of their property to buy more property or finance consumer spending by taking out a second mortgage secured by the price appreciation.

The US housing boom began to turn into a bubble when the supply of housing began to outstrip demand after mid 2006. House prices began to fall, and the average US housing prices fell by 20% over the next 2 years. As house prices fell, banks stopped financing consumption loans or refinancing earlier house loans and started applying pressure on borrowers to repay their loans. Many borrowers defaulted leading to a spate of foreclosures by banks.

The fall in house prices and the inability of borrowers to repay loans meant that the banks and other institutions that had invested in CDOs were left with huge amounts of 'toxic instruments' that had little value. Firms that had invested a disproportionate amount of their financial assets in these instruments collapsed. Others managed to survive by recalling their investments in other markets and in other parts of the world. Many were bailed out by their respective governments. Among the firms that shut down were Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation), both government–sponsored institutions that operated in the US housing sector & Bear Stearns and Lehman Brothers, which were among the world's largest investment banks, prior to their collapse in 2008. AIG, America's leading insurance firm, survived on account of a $182 billion bail out by the US government. UBS was Switzerland's largest bank and one of the many banks outside the US to be hit by the crisis. UBS suffered a loss of CHF 28 billion in 2008 and had to be helped back by

[4] Post-crisis, CDOs came to be better known as 'subprime mortgage loans' in view of the subprime or substandard credit worthiness of the original borrowers.

[5] A composite financial instrument whose value is based on the market price of its components is commonly known as a 'derivative'. Because the form and structure of its underlying composition is often concealed, the rating assigned to a derivative by the credit rating agency is an important factor in its marketability.

a CHF 6 billion financial package from the Swiss government. A similar government package helped save the Royal Bank of Scotland in the UK.

International ramifications of the collapse of the subprime bubble

Globalization ensured that turmoil of this magnitude in the world's leading economies would have its spillover on international financial stability. When the same group of speculators has invested their money in several different types of markets, it is said that strong "linkages" exist between the various markets. And cross-border financial liberalization has meant that speculative investment is not confined to the markets of the home country but goes wherever there is a possibility of (short term) profit in the world. It follows then, that the collapse of one of the major markets can have global consequences in multiple markets, a phenomenon known as "financial contagion". Thus, the bursting of the speculative bubble in the housing market in the US forced the major speculators (such as the financial firms of the West, mentioned previously) to withdraw their funds invested in currency, stock and commodity (e.g. oil and food) markets elsewhere in order to pay their debts in the subprime mortgage market. The world therefore witnessed a multiple-market, multiple-country crisis that included, among others, a currency collapse in Iceland (and a near-collapse in Hungary), a 50 % decline in the stock indices of India and Brazil along with a dramatic collapse in the international price of oil and food grains. The economies of several OECD countries that were directly hit went into recession, as is evident from the following table:

Table 1
Quarterly growth rates of GDP (%)

	Qtr. 1 2008	Qtr. 2 2008	Qtr. 3 2008	Qtr. 4 2008	Qtr. 1 2009
USA	0.2	0.7	-0.1	-1.6	-1.4
Japan	0.4	-0.6	-0.7	-3.6	-3.8
Germany	1.5	-0.5	-0.5	-2.2	-3.8
France	0.4	-0.4	-0.2	-1.4	-1.2
UK	0.8	-0.1	-0.7	-1.8	-2.4
Spain	0.4	0.1	-0.3	-1.0	-1.9
Italy	0.5	-0.6	-0.8	-2.1	-2.6
Switzerland	0.4	0.0	-0.2	-0.6	-0.8
Mexico	1.2	0.2	-0.6	-2.5	-5.9

Source: OECD Quarterly National Accounts

Commonly understood as a decline in the general state of the economy, a recession is defined technically as a decline in real GDP for two or more succesive quarters. The above table shows that in the US, the world's largest economy, GDP has contracted for three consecutive quarters for the first time since 1975, when the oil crisis triggered off a recession that lasted from November 1973 to March 1975. In Japan, the world's second biggest economy, as well as in several EU countries, the GDP has contracted for four consecutive quarters, a record since the oil crisis of 1979-81. Similarly, the UK faces its longest recession since 1980-81, when the country was coping with high unemployment during the Thatcher era. Mexico, the only G-15 country in the OECD, entered into a recession by the fourth quarter of 2008 and the economy spiralled downward rapidly thereafter with the GDP declining by nearly 6 % in the first quarter of 2009.

Globally, the economic consequences of the crisis have been severe. The ILO estimates that unemployment worldwide grew by 14 million in 2008 and by 15 million by the end of the first quarter of 2009. According to the World Trade Organization, international trade flows are expected to shrink by 9 % in 2009. The World Bank has estimated a net shortfall of capital flows to developing countries of $700 billion, including a decline in overseas development assistance by 30-60 % . The Bank has predicted that the global economy will decline by 2.9 % in 2009, calling the present crisis the worst since the Great Depression of the 1930s.

Likely fallout of the financial crisis on G-15 economies

What is the likely fallout of the financial crisis on G-15 economies? Experts have concluded that there could be at least six different sectors through which the current financial crisis could adversely affect the economies of developing countries. These are through (a) a fall in exports, (b) a fall in FDI; (c) a fall in migration and remittances; (d) a fall in portfolio inflows; (e) a fall in foreign aid; and (f) a fall in tourism. Not withstanding the fact that a few emerging economies may themselves have become drivers of growth, there is little doubt that most developing countries, including most G-15 countries, continue to remain heavily dependent on the rich countries for their trade, investment and foreign capital needs. It is not surprising then, that according to a recent assessment, even if the rich economies are able to recover by next year, developing countries are likely to feel the aftershocks of the financial crisis for many years to come[6].

Which countries of the Group are likely to be the most adversely affected by the crisis? Using data for 2007 on the six sectors identified by experts as the likely channels for the transmission of the crisis to developing countries, the TSF has attempted to assess the relative vulnerability of individual member countries to the present economic downturn (Table 2). In general, countries that are more open or exposed to the global economy (especially to the developed world), as measured by the share of exports, foreign direct investment, remittances, private capital needs, tourism revenues and foreign aid in their GDP, are likely to be more vulnerable to the consequences of the crisis. Others less exposed, or whose international economic relations are tied up with other developing countries of the South, are likely to experience fewer difficulties. As can be seen from Table 2, countries whose economic relations with the rest of the world have a narrow base, such as Algeria, Iran and Zimbabwe are exposed to a fewer number of risk factors and are thereby more or less insulated from the crisis. Small open economies like Jamaica and Egypt on the other hand, have the highest risk of being adversely affected by the crisis. For the purpose of discussion, this paper has categorized countries that are exposed to the rest of the world in just one or two sectors as having " Low Vulnerability" to the financial crisis. These countries are Iran, Venezuela, Algeria, Nigeria, Indonesia,

[6] Statement of Robert Zoelick, World Bank President in Washington, quoted in the International Herald Tribune, June 10 2009

Brazil, Chile, Argentina and Zimbabwe. G-15 countries exposed to three or more risk factors are categorized as having "High Vulnerability" to the financial crisis. These countries are Jamaica, Egypt, Mexico, Kenya, India, Malaysia, Senegal and Sri Lanka.

Table 2
Vulnerability of G-15 Countries to the Financial Crisis

	Trade		Remittances	FDI	Tourism	Aid Dependency	Foreign Capital
	Non-fuel merchandise exports (% of gdp)	Share of high-income countries in merchandise exports (%)	Inward remittances flows (% of gdp)	Foreign direct investment inflows (% of gdp)	Inbound tourism expenditure (% of total exports)	Foreign aid (% of gdp)	Private foreign capital inflows (% of gdp)
Algeria	Negligible	86.4	1.6	1.2	n.a.	0.3	0.3
Argentina	20.6	31.7	0.2	2.5	7.5	0	4.4
Brazil	14.6	54.2	0.3	2.6	2.9	0	5.3
Chile	45.9	59.9	0	8.8	2.8	0.1	3.4
Egypt	15.1	70.1	5.9	8.9	23.3	0.8	5.2
India	18.8	65.6	3	2	4.5	0.1	5.2
Indonesia	24.5	68.4	1.6	1.6	4.5	0.2	2.9
Iran	4.8	59.3	0.4	0.3	n.a.	0	0.1
Jamaica	17.2	88.9	18.8	7.6	43.4	0.3	33.4
Kenya	25.1	41.1	6.6	3	22.1	5.3	0
Malaysia	117	70.5	1	4.5	8.2	0.1	7.9
Mexico	26.8	92.4	2.7	2.4	4.9	0	4.3
Nigeria	Negligible	75.8	5.6	3.7	0.5	1.4	4.3
Senegal	12.3	38.2	8.3	0.7	13.7	7.6	0.6
Sri Lanka	23.9	76.4	7.8	1.9	7.9	1.8	3.4
Venezuela	3	81.9	0.1	0.3	1.3	0	5.2
Zimbabwe	42.8	32.7	n.a.	3	2.8	n.a.	0

n.a. implies data not available
Note : figures marked in red suggest vulnerability to the crisis

Source: TSF Table based on World Development Indicators 2009, World Bank. Data on non-fuel merchandise exports for Jamaica, Senegal and Sri Lanka compiled from WTO's International Trade Statistics 2008 and for the rest from *The Economist's* Pocket World of Figures, 2009.

The nine G-15 countries that are relatively less vulnerable to the current financial crisis are of two kinds. The first group comprises Iran, Venezuela, Algeria and Nigeria whose economies are mainly driven by revenues from the production and export of hydrocarbons. The economic fortunes of these countries are linked to the rise and fall of the international prices of oil and gas and not so much to economic conditions in the West. The largely inelastic global demand for their chief item of export means that these countries are comparatively insulated from being severely hit by the current financial crisis.

The second group of G-15 countries that are relatively insulated from the crisis are those whose economies are either driven by domestic demand, or else their economies are linked to other developing countries rather than to the advanced Western nations. These are large countries like Brazil, and Indonesia and also Argentina, Chile and Zimbabwe. The fallout of the global financial crisis in these countries could be felt in a narrow range i.e. in those sectors that are more exposed globally. Such exposure could affect for example, Brazil's stock market, FDI inflows to Chile or merchandise exports of Indonesia. However these countries could well manage to avoid any widespread economic consequences of the current global financial crisis.

The most vulnerable G-15 countries

We now take a more detailed look at those G-15 countries that are vulnerable to a disproportionate adverse impact from the crisis. Such countries could experience one or several consequences of the crisis such as a sharp contraction of their exports, a fall in foreign direct investment and negative net private capital flows, declining remittances and tourism revenues and a fall in overseas development assistance, among others.

Jamaica. Amongst the most vulnerable countries is Jamaica, which has a record of borrowing heavily in the international capital markets for financing its expenditure. As a result of the crisis, new private capital could become more costly to obtain, adding to an already high debt service burden, estimated to be 50-60% of government revenues in 2009. Many other sectors of significance for the Jamaican economy, such as exports, remittances, FDI and tourism could also be adversely affected, given their heavy dependence on the state of the US economy. In fact, recent data shows that the Jamaican economy is already in recession, having experienced a decline in GDP growth for the last three quarters.

Mexico. A G-15 country that is exceptionally exposed to the economic strengths or weaknesses of the US economy is Mexico. 85 % of its exports are directed to the US. The country is also the third highest recipient of remittances in the world, nearly all of which comes from migrants living in the USA. Apart from this, tourism is a $10 billion industry in Mexico, with 70 % of foreign tourists coming from the USA. With all these sources of foreign exchange coming under pressure, it is not surprising, then that Mexico became the first G-15 country to receive a financial bail-out package from the IMF in February 2009.

Egypt. Not as open to the rest of the world as the countries discussed in the preceding paragraphs, the fate of the Egypt's economy is nonetheless linked to developments abroad. Economic reforms, including the sale of assets of the public sector, had made Egypt the leading destination for FDI in Africa (even ahead of South Africa) in recent years. FDI inflows, which have been the main driver of the 7 % rate of growth achieved by the Egyptian economy, could be negatively affected by the present financial crisis. Egypt's central bank has, in fact, reported a 53% decline in FDI inflows since the present financial crisis began. Tourism, which contributes significantly to the economy, could also receive a setback, given that the bulk of foreign tourists arriving in Egypt are from rich countries of the West. Finally, even though the main source of workers remittances is Saudi Arabia, this important source of foreign exchange could decline if construction activity in the Middle East dries up as a consequence of global financial weaknesses.

Malaysia. With an export/GDP ratio of 117%, Malaysia is the most trade-dependent economy among the G-15 countries. Given further, that the US is the biggest destination for Malaysian exports, the country's susceptibility to the financial crisis in the West cannot be overemphasized. Another worrying factor is the impact of the financial crisis on FDI inflows. This is because much of FDI inflows to Malaysia have been directed towards the export-oriented manufacturing sector. With exports themselves being hit by the crisis, the possibility of a domino effect on FDI inflows to Malaysia cannot be ruled out. Malaysia has also been one of the leading G-15 countries to obtain financing by tapping international capital markets. With financial resources becoming scarce, Malaysia could be burdened with higher borrowing costs. Experts have forecast a dramatic fall in the rate of growth of GDP in Malaysia from a healthy 5 % in 2008 to around 1 % in 2009[7].

Kenya. At 6 % of GDP, remittances (mostly from the UK) are an important element in Kenya's economy. These could be one of the first casualties of the financial crisis in the West. Another sector that could suffer is tourism, especially on the east coast of the country, which attracts a significant number of Western tourists and is the second highest foreign exchange earner in Kenya. These factors, as well as a potential decline in exports of horticultural produce to Europe as well as tightening of foreign aid, make Kenya one of the G-15 countries that are most vulnerable to the financial crisis. According to one report, Kenya is already witnessing a 30% decline in stock prices as well as a 30% fall in tourist arrivals as a consequence of the crisis[8].

Senegal. Another G-15 country that is heavily dependent on foreign aid is Senegal, which could be adversely affected as traditional donors like France and the USA feel the pinch of the financial crisis. Senegal also has a greater reliance on remittances than most other G-15 countries and these come mostly from crisis-hit countries of Europe like France and Italy, where many persons of Senegalese origin reside. Another sector that could be hit by the financial crisis could be Senegal's nascent tourism sector, which catered to 866,000 tourists in 2007, with 70 % coming from France.

Sri Lanka. Exports, especially of tea, agricultural products and textiles and garments have played an important role in the economy of Sri Lanka. With the two leading destinations for the country's exports, the US and the UK being crisis–hit, an adverse impact on Sri Lanka's exports could be a real possibility. Sri Lanka also has a large expatriate labour force, which sends remittances to its home country, that amount to around 8 % of GDP. Crisis-hit Canada and Western Europe are home to large numbers of Sri Lankan expatriates and remittances from these countries could decline. In fact, the Central Bank of Sri Lanka has reported a 15 % decline in export earnings and a 6 % fall in remittances for the first quarter of 2009 compared to the previous year.

India. The US, EU and the Middle East countries account for two-thirds of India's merchandise exports. In addition, India is also a significant exporter of IT services. About

[7] Economic and Social Survey of Asia and the Pacific 2009, UNESCAP, page 134.
[8] *Impact of the Global Financial and Economic Crisis on Africa,* African Development Bank, 2009. www.afdb.org.

15 per cent to 18 per cent of the business coming to Indian outsourcing firms includes projects from banking, insurance, and the financial services sector. As a consequence of the financial crisis, earnings from both merchandise exports as well as services trade could witness a significant fall. India is also the world's largest recipient of remittances. The Persian Gulf countries (18%), the US (10%), Canada (5%) and Europe (3%) together host a third of the large Indian Diaspora. Remittances to India could fall as the Gulf countries adjust to lower oil prices and the rich countries enter into a recession[9]. Nearly half of the financing needs of India's corporate sector are obtained by borrowing from international capital markets. This is likely to become more costly to access. Finally, India's stock markets and real estate sector were experiencing a boom driven mainly by portfolio inflows and foreign investments in housing. These could be badly hit as the financial crisis causes a reversal of capital flows out of India. Indeed, all these factors have already begun affecting India's external sector. Foreign exchange reserves fell from $313 billion in April 2008 to $264 billion in June 2009, causing a pressure on the rupee whose value has fallen by 10 % since the financial crisis began. India's stock index also halved between January–October 2008 and real estate construction activity has slowed down considerably.

There is little doubt that the economic crisis, the ramifications of which are yet to be fully revealed, has significantly reversed the robust growth of the world economy in recent years. Among the vulnerable group of G-15 countries, there are some that possess the internal economic strength to ride out the crisis without any severe long-term consequences. For many others, however, the crisis threatens to gravely undermine the gains they have made to progressively alleviate hunger and poverty, ensure food security, create jobs as well as improve the general living conditions of their people.

Recommendations for the Future

What should be done to prevent the recurrence of such a crisis? The first part of this concluding section discusses possible answers to this question in terms of a fundamental shift in the manner in which the financial sector is allowed to operate. The second part is devoted to the more pertinent issue of what precise steps G-15 countries could take to protect their economies from the effects of a future global financial crisis.

(1) Replacing the "market knows best" principle with enhanced financial regulation. There is much merit in the view of the many experts who have analyzed the present crisis that more stringent regulation, monitoring and surveillance of the financial sector is vital in order to prevent its recurrence. This is because the past quarter of a century has witnessed an unprecedented increase in the size, spread and profile of the financial sector. A recent study by UNCTAD shows how in 1983, the financial sector generated just 7.5 % of total corporate profits in the USA. By 2007, this sector accounted for as much as 40 % of total corporate profits. The same report points out however, that while the contribution of the financial sector to corporate profits has increased five-fold, the

[9] The Indian government has confirmed that around 150,000 Indian construction workers had returned from the United Arab Emirates as a result of delays in project implementation due to the recession. (Times of India, 8 July 2009)

contribution of the financial sector to GDP has risen only marginally – from 5 % of US GDP in 1983 to just 8% in 2007. [10] These are alarming statistics that suggest that the financial sector has reaped windfall profits in recent years without actually contributing much to the real economy and overall productivity.

How has the financial sector managed to achieve such impressive gains in the past 2-3 decades? Facts that have emerged as the present crisis has unfolded appear to indicate that the main source of profits has been a massive rise in short-term speculative investment. For instance, currency speculation on a large scale has enabled private financial institutions to capitalize on short-term opportunities provided by differential interest rates and divergent monetary policies in different countries. And speculation is not confined to currency market alone but extends to the stock, real estate and markets for commodities.[11] As profits from speculative investments expanded, the number of financial institutions indulging in this activity also proliferated. Banks and insurance companies opened new and expanded existing departments for "investment banking". In fact, such was the lure of short-term profits that the observers believe that a large portion of the capital held by investment banks was channeled into speculative investment. However, speculative profits do not contribute to the real economy. In more fragile environments, they can be the cause of financial strain and can trigger off financial crises such as the present one.

This crisis has also shown how, over time, an unregulated corporate sector became distorted so that bonus payouts to high-level executives became linked in practice to their ability to secure short-term profits rather than being guided by improvements in the long-term well being of their company[12]. In recent times, the system of corporate bonuses evolved in an even more perverse manner, so that high bonuses for CEOs came to be written into employment contracts, irrespective of the performance of the firm.

It is therefore imperative for G-15 countries to press for a new global financial ethic that replaces the current "market knows best" philosophy. In other words, they must work towards building a consensus for an enhanced level of regulation and supervision of major financial centers, international capital flows, financial institutions and financial products. The G-15 countries currently hold over $300 billion in US Treasury securities (see Figure 1) and also hold significant amounts in the Euro and other strong currencies. These, in collaboration with other non-Western stakeholders, could be used as a

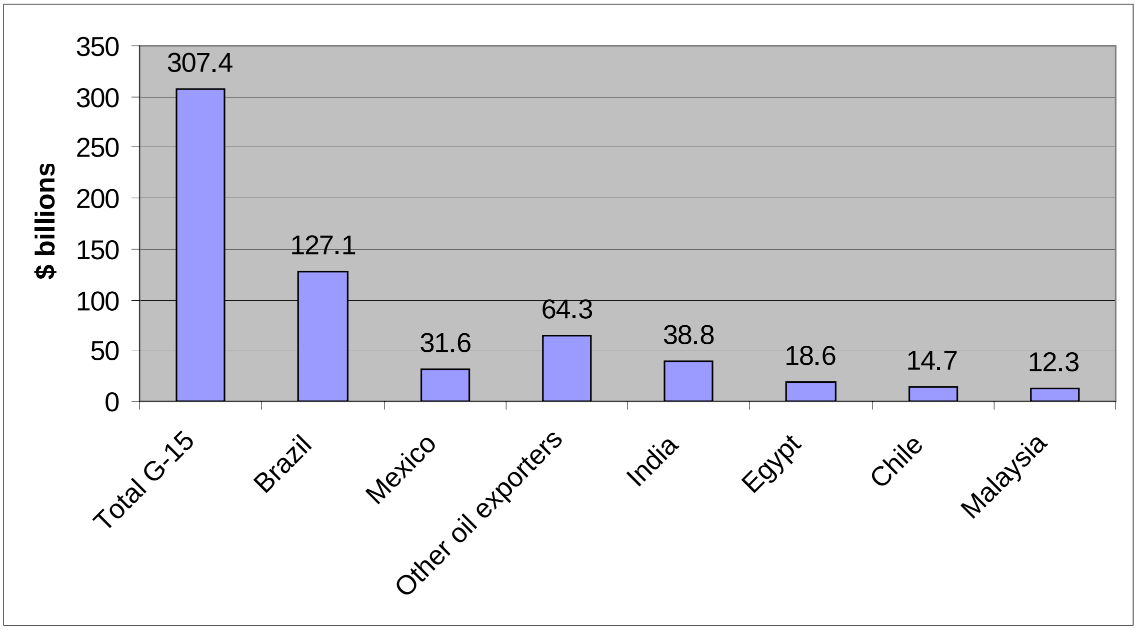
[10] The Global Financial Crisis: Systems failures and Multilateral Remedies, UNCTAD, 2009

[11] The extraordinary spike in the global prices of oil and food in 2008 is now believed to have been triggered by speculative trading and not, as some analysts had propounded, to a rise in demand from emerging economies like China and India.

[12] John Rawls, a Professor of Philosophy in Harvard University, provided the logic for high pay packets for business executives. In his *Theory of Justice* (1971), Rawls wrote that a large difference between the pay of the lowest and the highest paid worker in an organization could be justified, so long as the latter was motivated to earn more profit for the company, which in turn, improved the lot of the lowest paid workers.

bargaining tool to induce regulatory reform of the financial sector in the advanced economies[13].

Figure 1
Holdings of US Treasury Securities by G-15 Countries (May 2009)



Source: TSF chart based on data from www.ustreas.gov/tic

What other concrete steps can G-15 countries take to protect themselves from similar crises in the future? The fact that the present crisis originated in the advanced countries means that G-15 countries must take steps that give them increasing autonomy (in terms of both finance and policy space) from the advanced economies as well as from financial institutions sponsored by the latter. Given that any financial crisis adversely affects developing countries (a) by creating balance of payment (BOP) difficulties; and (b) by drying up external sources of development finance, it follows that G-15 countries should, for a start, participate in those new initiatives that aim to provide financial assistance for BOP emergencies or for development finance independent of the existing cluster of global and regional financial institutions. To this end, the following two initiatives involving South-South cooperation in a major way are worthy of serious consideration.

(2) A South Financial Emergency Fund. Many of the financial crises that have occurred in the recent past have involved the sudden withdrawal of capital by Western investors, leading to a sharp fall in the value of the currency of the affected developing country and subsequent balance of payments problems. This is precisely what happened in the Asian financial crisis of 1997-98, which was famously triggered off when the US hedge fund, Long Term Capital Management, recalled its short-term investments in several Asian countries. In the present crisis too, G-15 countries like Mexico and Sri Lanka have been subjected to sudden and massive capital flight, causing severe BOP

[13] Russia, China and India have publicly expressed the need to move away from a global financial system dominated by a single currency.

problems in these countries. The key global or regional institutions that are expected to intervene in such a situation are dominated by the advanced Western economies, have had a record of advocating controversial policy prescriptions and remain largely unreformed in their decision making structures.

There is, therefore, a strong case for creating an autonomous Fund for developing countries in financial emergencies. The obvious example to follow in this regard is the Chiang Mai Initiative under which 13 East and South East Asian countries have agreed to set up a $120 billion emergency fund to shield themselves from financial crises. The fund is to offer emergency BOP support to any member country faced with severe capital flight. Two G-15 countries, viz. Malaysia and Indonesia, are already members of this new fund. Experts have called for a "multilateralization" of the Chiang Mai initiative[14]. Can there be a replication of this among G-15 countries? Indeed yes, given the build-up of foreign exchange reserves in several member countries. The Chiang Mai Initiative is to be financed by mobilizing only a small portion of the very large foreign exchange reserves held by Asian member countries. Larger economies like Japan, China and South Korea are contributing 80 % of the funding, while the 10 ASEAN nations are responsible for mobilizing the remainder 20 %. By the same degree, G-15 countries with larger foreign exchange reserves representing different regions of the G-15 membership can be the relatively bigger contributors to a South Financial Emergency Fund. These include India, with $264 billion in foreign exchange reserves, Brazil ($209 billion), Algeria ($145 billion), Malaysia ($87 billion), Iran ($81 billion), Mexico ($74 billion) and Nigeria ($51 billion).

(3) The Bank of the South. G-15 countries also have to insulate themselves from the longer-term consequence of a global financial crisis in the form of a shortage of development finance due to the tightening of international capital markets and the drying up of multilateral, regional and bilateral assistance. Here, membership by G-15 countries of the Bank of the South assumes great relevance. First proposed in the Caracas Summit of the G-15 in February 2004, the Bank of the South has taken the initial steps to being established in South America with the membership of seven countries of that region[15]. Three G-15 countries from South America viz., Brazil, Argentina and Venezuela have committed to provide $2 billion each as starting capital. The aim of the Bank is to make available loans for the construction of infrastructure and other social projects at below market rates of interest and without any preconditions. The Bank of the South has received endorsement recently at the UN Conference on the World Financial and Economic Crisis and its Impact on Development held on 25 June 2009 by Joseph Stiglitz, leading economist, and Chairman, Experts Commission on International Monetary and Financial System Reforms, who stated that it "could be a very important part of the (post-crisis global financial) architecture." By embracing the Bank of the South, the rest

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[14] See, "The Future of the Chiang Mai Initiative: An Asian Monetary Fund?" C. Randall Henning, Policy Brief, Peterson Institute for International Economics, February 2009.

[15] These are Brazil, Argentina, Venezuela, Bolivia, Ecuador, Paraguay and Uruguay.

of the G-15 membership could well be taking the first decisive steps to exercising greater autonomy and control over their own development finance needs[16].

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[16] The Technical Support Facility itself conducted a detailed appraisal of the concept for which delegates are invited to revisit the TSF publication " Economic Justification for a Bank of the South", Working Paper Series, Volume 2 (June 2007).