e3ternal and denominated in foreign currency, thus e3posing them to significant e3change ris*. , oreo!er, with !ery few e3ceptions, the de!eloping countries ha!e faced significant net negati!e capital transfers since 1997, and ha!e #een una#le to pursue anti)cyclical policies. 0ndeed, faced with a contraction of in!estment flows and restricted access to glo#al financial mar*ets, and fearing that the !olatility of capital might lead to financial crisis, emerging mar*et economies that had opened their capital account ha!e had to adopt restricti!e, pro)cyclical fiscal and monetary policies and to #uild up their international reser!es in order to protect themsel!es against this ris*. 0n so doing, they contri#uted to the deepening of #oth their own and the international economic downturn. Gi!en their importance in international output and trade, this led to a protracted recession and to a slowdown in glo#al trade flows. The repeated application of restricti!e policies to meet short term e3igencies #y d

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The position promoted #y the 0 , - on the issue of the complete li#erali/ation of capital mo!ements !ery much reflected the interests of G7 mem#ers, including se!eral countries which ha!e a strong commercial interest in the matter. 0f the group had included countries such as 0ndia and &hina, that #elie!e capital controls ha!e allowed them to sustain high rates of economic growth and a!oid financial crises, the policy outcome would ha!e #een different.

At present, the financial system is incomplete, as it lac*s #oth a mechanism for financial support to countries under threat of a financial crisis and a mechanism for a payments standstill to allow the orderly restructuring of e3ternal lia#ilities. Thus any support actions are underta*en on an ;ad hoc<, discretionary #asis. The de!eloping countries would call for a more predicta#le, rules #ased approach. -or emerging mar*et economies to a!oid unduly contractionary policies in response to the ris*s of financial crises posed #y financial mar*et !olatility, they must #e offered !ery su#stantial and timely financial support in order to sustain mar*et confidence and o!ercome speculati!e attac*s on their currency. This was the approach followed #y Germany in 19$" to support the -rench -ranc and was the idea underlying the &&4 facility, recently closed down #y the 0 , -.

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The !iews toward the creation of international li'uidity #y an allocation of 2+9s to supplement reser!es at a time of international recession differ. The G7 countries, a#le to #orrow as much as they need, generally ta*e the !iew that there is no need to e3pand international li'uidity. 6n the other hand, most de!eloping countries with limited or no

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of G+> ?0 , -@ to 7= of G+> ?7 @ and if indirect shoc*s are considered, as much as .%= of G+>.

&ountries with less di!ersified economies and per capita incomes of under A1%%% are the most affected #y commodity shoc*s, #e they the result of natural disasters, such as droughts and floods or of price shoc*s.

The G7 countries ta*e a negati!e !iew of commodity price support mechanisms and are reluctant to consider arrangements related to commodity price sta#ili/ation. 1nfortunately, this attitude has permeated their !iew of mechanisms such as the 0 , - &ompensatory -inancing -acility, whose use has #een made difficult since the mid) eighties through increasing conditionality on its use.

0f the arguments for compensatory financing type support measures, which en!isage full repayment of financial support recei!ed, were put to the G.% #y low income countries su#ject to commodity shoc*s, their case would #e difficult to resist, since it is incongruous to increase aid flows to low income countries on the one hand and to deny them temporary financial support to deal with re!ersi#le commodity shoc*s.

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0t seems reasona#le to e3pect that an open G.% discussion of a #roader agenda would lead to a #etter understanding and greater accommodation of de!eloping country interests and the outcome would differ from one restricted to deli#erations among the G7. A G.% dialogue, #y #roadening the agenda and including major players may help promote the necessary adjustments and tend to impro!e theo[illegible] ot [illegible]

[1] 6r 44= of world G+> if transition economies are included. 2ource(7orld an*, 7orld +e!elopment 0nde3, .%%".