Interaction Program on Global Economics

With Dr. Roberto F. De Ocampo

Institute for Strategic and Socio-economic Research

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September 16, 2024

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Acknowledgement

The Institute for Strategic and Socio-Economic Research (ISSR) and Khabarhub jointly organized an interaction program with Dr. Roberto F. De Ocampo, Former finance secretary of Philippines on Global Economics, on September 16, 2024. The event addressed The Asian Financial Crisis, its causes and lessons learned. This report presents the proceedings and conclusion of the discussion on relating the Asian Financial Crisis and Nepal's economic challenges and opportunities.

I would like to express my sincere gratitude to everyone from ISSR and Khabarhub.com for their efforts to prepare this report. We hope to receive constructive feedbacks in the future. Thank You.

Naresh Shrestha
Director, ISSR

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Introduction

Institute for Strategic and Socio-Economic Research (ISSR) organized a significant event featuring an informal conversation with Dr. Roberto F. de Ocampo, former Secretary of Finance of the Philippines. This event allowed key figures in Nepal's economic and financial sectors to engage with Dr. Ocampo, a renowned expert in global finance, who shared his experiences and insights from the Asian Financial Crisis (AFC) of 1997 and the role of the Philippines in navigating those turbulent times. The discussion also touched on critical issues relevant to Nepal's economy today, such as public-private partnerships (PPP), tax reforms, and the challenges faced by developing countries in the global financial landscape.

The Event: Setting the Stage

The event was opened by Naresh Shrestha, Chairman of ISSR, followed by introductory remarks by Dr. Bindu Nath Lohani, who chaired the program. Dr. Ocampo's impressive background as the first Filipino to receive the prestigious "Global Finance Minister of the Year" award in 1995 was highlighted, as well as his role in spearheading economic recovery in the Philippines during the presidency of Fidel V. Ramos. Notably, his leadership during the AFC, which impacted economies across Southeast Asia, stood out as a key learning opportunity for Nepal and its policymakers.

The Asian Financial Crisis: Causes and Lessons

Dr. Ocampo began his address by revisiting the events of July 1997, nearly 30 years ago, when he served as the Secretary of Finance for the Philippines. The AFC had its origins in Thailand, where the collapse of the Thai baht triggered a cascade of economic crises across the region. As Dr. Ocampo noted, currencies across Southeast Asia rapidly devalued, leading to widespread financial turmoil.

In his speech, Dr. Ocampo emphasized how the Philippines, unlike many other countries, allowed its currency to depreciate rather than defend it, maintaining a budget surplus that helped it weather the storm. By not depleting its foreign exchange reserves in a futile attempt to support the peso, the Philippines was able to maintain economic stability. The adoption of the Manila Framework, which outlined steps for Southeast Asian countries to recover from the AFC, was another key success under his leadership.

One of the significant lessons from the AFC, Dr. Ocampo explained, was the danger of over-reliance on Western financial resources for generating needed funds. At the time, many Asian countries had borrowed extensively from Western commercial banks, which led to vulnerabilities when the financial crisis hit. This dependence exposed the region to shocks, and there was no equivalent in Asia to the Western financial systems to provide a buffer.

Dr. Ocampo highlighted that Japan's Miazawa Fund, and later the Chang Mai Agreement, laid the groundwork for greater financial cooperation within Asia. These initiatives aimed to provide

Asian countries with regional financial mechanisms that could reduce their reliance on Western sources. The creation of an Asian Bond Market was also explored as a way to fund regional projects independently of Western financial institutions.

Public-Private Partnerships and Tax Reforms

Another key topic Dr. Ocampo touched on was the need for robust public-private partnerships (PPP) to drive infrastructure development. During his tenure as Secretary of Finance, he spearheaded several initiatives that encouraged private sector participation in infrastructure projects. This, he noted, was essential for countries like the Philippines and Nepal, where government resources alone may not be sufficient to finance large-scale development projects.

One of the critical challenges he faced as Finance Minister was reforming the country's tax system, particularly in the areas of "sin taxes" on products such as alcohol and cigarettes. By simplifying the tax structure and reducing the number of tax brackets, the Philippines was able to increase revenue collection without overly burdening its citizens. Dr. Ocampo pointed out that similar tax reforms could be beneficial for Nepal as it looks to increase government revenue for development projects.

Managing Financial Crises: Lessons from 2008

Dr. Ocampo also spoke about the global financial crisis of 2008, drawing parallels between it and the AFC. One of the central lessons from both crises, he said, was the importance of managing fiscal and monetary policy in a way that balances short-term needs with long-term goals. He noted that many of the countries that recovered quickly from the AFC did so because they relied on conservative fiscal policies and did not over-extend themselves in borrowing.

A significant challenge during the 2008 global financial crisis, according to Dr. Ocampo, was the lack of a coordinated global response. While Western countries, particularly the United States, took aggressive action to stabilize their economies, the impact on developing countries was often neglected. Dr. Ocampo emphasized the need for developing countries like Nepal to build resilience by creating strong domestic financial systems that are less reliant on external shocks.

The Role of Multilateral Institutions

During the discussion, questions arose about the role of multilateral institutions such as the International Monetary Fund (IMF) and the World Bank. Dr. Ocampo was asked about the dominance of Western countries in these institutions, particularly why the IMF is traditionally headed by a European and the World Bank by an American. He responded that there is indeed a need for more representation from developing countries in these institutions, as the current system often does not adequately address the specific needs and challenges faced by these nations.

He also highlighted how countries like the Philippines managed to balance the "IMF cookbook" of strict financial austerity measures with more flexible and creative financial solutions. In times of crisis, he argued, each country must find the right balance between following international guidelines and tailoring solutions to its unique economic context.

Nepal’s Economic Challenges and Opportunities

The event also featured insights from Nepalese experts, including former Finance Minister Gyanendra Bahadur Karki, who expressed that Nepal is currently at a critical juncture in its economic development. Karki pointed out that Nepal, like the Philippines, faces the challenge of brain drain, with a large portion of its workforce migrating abroad for employment. He asked Dr. Ocampo how Nepal could manage this issue, balancing the need for remittances with the long-term goal of building a skilled workforce domestically.

Dr. Ocampo suggested that Nepal could learn from the Philippines’ experience in developing its human capital. While remittances provide immediate economic relief, they can also lead to over-reliance on external income sources. Instead, he recommended that Nepal invest in education and training to create a highly skilled workforce that could drive innovation and economic growth from within.

He also noted that identifying Nepal's comparative advantages is key to its long-term economic strategy. Nepal’s unique geography, rich cultural heritage, and natural resources such as tourism and hydropower offer significant opportunities. By focusing on these sectors, Nepal could develop a sustainable growth model that leverages its strengths rather than trying to emulate the development paths of other countries.

Conclusion

The event featuring Dr. Roberto F. de Ocampo provided valuable insights for Nepal as it navigates its economic challenges in a globalized world. Drawing lessons from the AFC and the 2008 global financial crisis, Dr. Ocampo emphasized the importance of regional financial cooperation, robust public-private partnerships, and sound fiscal policies. Nepal has a unique opportunity to learn from the experiences of other Southeast Asian countries, particularly in developing its human capital and infrastructure.

As Nepal looks to the future, building resilience against external shocks and developing a sustainable economic model will be crucial. The insights from Dr. Ocampo and the other distinguished participants provide a roadmap for Nepal to strengthen its financial system, attract investment, and drive long-term growth. With thoughtful policy choices and strategic investments in its unique strengths, Nepal can achieve sustainable development and prosperity for its people.