# for the Developing Countries

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Financial liberalization is an integrated part of overall economic liberalization. In general, the objective of financial liberalization is to promote the role of the market and to minimize the role of the state in determining who gets and gives credit and at what price, or as stated by McKinnon (1973), the primary objective of financial liberalization is to eliminate financial sectors from 'financial repression.'

However, as an integrated part of overall economic liberalization, especially as it is put into agenda by the Washington Concensus, the ultimate objective of financial liberalization is basically to accelerate the integration of a developing country economy into the global market economy based on capitalism.

In details, the key components of financial liberalization are the following: (a) deregulation of interest rates; (b) removal of credit control; (c) privatisation of government banks and financial institutions; (d) liberalization of restrictions on the entry of private sector and/or foreign banks and financial institution into domestic financial markets; (e) introduction of market based instruments of monetary control; and (f) capital account liberalization (Singh, 2000).

Based on the above six components, it can be seen how wide the scope of financial liberalization is. In other words, from the Washington Concensus point of view, financial liberalization does not only comprise the tight budgetary policy and the removal of subsidies, trade and financial liberalization. It also encompasses the privatisation of state owned enterprices.

For example, the removal of credit control has a direct relationship with the removal of low interest credits for agriculture and/or small and medium enterprises. The privatisation of state owned banks and financial institutions has also a direct link with the privatisation of state owned enterprises. While the removal of restrictions for foreign banks to enter domestic financial markets, indirectly relates to trade liberalisation.

As such, the emergences of dangers behind financial liberalization cannot be escaped. Even though the discourse about the dangers of financial liberalization nowadays tends to be shifted into the discourse about sequencing in the process of liberalization, the emergences of systemic dangers behind financial liberalization for the developing countries cannot be avoided.

The dangers of financial liberalization for the developing countries can be traced under three categories as the following. Firstly, financial liberalization increases financial fragility and deterioration in the economic performance of the developing countries. Moreover, as the South and South East Asian Nations had experienced it during the 1997/1998 monetary crisis, financial liberalization can be accumulated into economic, social, and political turmoil.

The above phenomen relates closely with the emergences of delinks between the financial sector and the real sector, and the dominances of economic activities within the financial sector in compare to the real sector. It also has a direct relationship with the increase of financial transactions for speculative purposes. As a result, for the developing countries, financial liberalization has to be understood simply as a precondition for the fall of their economy into a trap of speculative financial transactions with its instability consequences.

Secondly, financial liberalization tends to create wider inter sectoral, inter region, and inter income groups ecenomic inequalities within a nation. This phenomenon has a very close link with the basic principles of financial sector activities. As it has been known, economic activities within the financial sector primarily based on the 'money follow the bussines' logics. Meaning, financial liberalization tends to promote the increase of money circulation towards places where it can be easily accumulated.

The situation becomes worse when there is no link between economic activities in the financial sector and the real sector. Financial liberalization does not only tend to promote industrial, urban, and high income credit allocation bias. It can also fall into disengagement with the activities in the real sector. As a result, the involvements of the states in managing financial stability, should be watched out as a shifting of its role from the servant of the society to become the slave of the financial market actors.

Finally, as a consequence, financial liberalization tends to limit the capacity of the states in defending national integrity and sovereignity. On the one hand, financial instability and economic inequality tends to be a very serious threat for a nation's integrity and sovereignity. On the other hand, the limitations of the states in managing the situation, could not only encourage permanent needs to serve the main actors of the financial markets. On the contrary, it could accelerate a kind of disbelievinf on the role of the state within the society.

In relation with this final danger, Indonesia's current situation is very important to be noted. It is widely known that Indonesia has been consistently engaging in the liberalization of its financial sector since 1983. However since the great monetary crisis of 1997/1998, financial liberalization has not only become a prominant cause of crisis. Nowadays, the threats of horizontal and vertical disintegration has become a central issue in the development of Indonesia's political-economy.

There is a possibility that Indonesia has become a victim of financial liberalization!

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