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Asean action to protect currencies (HL)

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ASEAN undertook a commitment unprecedented in its 30 years history yesterday when it rallied for the intensification of cooperation to safeguard its currencies against speculative attacks.

The nine-member grouping, at its two-day 30th Asean Ministerial Meeting (AMM) in Petaling Jaya, said it will support any cooperation at the regional level to protect its own interests.

The Asean foreign ministers did not make any specific resolutions on what need to be done to curb speculative activities on the currencies but will leave it to their finance counterparts and governors of their central banks to do so.

Foreign Minister Datuk Seri Abdullah Ahmad Badawi said it is not proper for the foreign ministers to subscribe a specific role in the form of an "Asean Foreign Ministers" resolution on the matter.

"It is adequate for us to express our concerns and hope that whatever cooperation that is going on now among finance ministers and governors of central banks will be intensified in such a way so that they can manage the situation," he told a press conference at the end of the two-day meeting.

The Asean foreign ministers from Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam, Laos and Myanmar took the cue from Prime Minister Datuk Seri Dr Mahathir Mohamad who had called for Asean's cooperative spirit to combat the speculative assault on the currencies.

Dr Mahathir, on Thursday when opening the 30th AMM, went one step ahead by suggesting the formulation of laws to curb speculation on the region's currencies.

The Asean foreign ministers had expressed their mutual support in their 15-page joint communique, under the heading "International Currency Manipulation" of all Asean economies.

To a question whether Asean would pool resources to form its own central bank, Abdullah said no plans have been made to this effect.

Economists contacted by Business Times said central banks of Asean countries will have to find similarity in their monetary instruments to enable the formulation of the proposed laws regarding the region's currencies.

Arab Malaysian Securities senior economist Mustafa Mohd Nor said they will also have to look into the ways how these instruments can be implemented for integration in the proposed laws.

The proposed laws regarding the region's currencies will enable Asean to counter major attacks by speculators.

"It is crucial that Asean countries work together to combat speculative assault on the regional currencies.

"Asean as a grouping is bigger and stronger now. Economically, the region is stronger and we have the strength to curb speculators if we do it in a coordinated basis.

"However, we have to look at the level of attack. If it is a minor attack by speculators, we do not need any concerted effort but if the situation is critical (like it is now), then working together would benefit all," Mustafa said.

Abdullah also said that it would be more effective if Asean undertake a concerted action to curb such activities by fund managers and financiers

rather than pursuing individual measures and strategies.

Abdullah said Asean economies have strong linkages among its member countries and as such, it would be better if they work together.

"If something can be done now to stop such activities, it would be better for us in the future.

"How exactly this can be done, I shouldn't say (leaving it to the finance ministers and governors of central banks)," he added.

Mustafa concurs with Abdullah, saying that Asean countries, on their own, will not be able to stop speculators. But if countries share the common interest and work together to push the US dollar down, for instance, then they may achieve something.

"It all depends on each country's position. If everyone is under the same pressure, they will have to act in the same way," he said.

He, however, said it is a matter of how the region's central banks can come together.

There are already some arrangements between some Asean central banks.

In September 1995, central banks of Thailand, Malaysia, Singapore, Japan and Hong Kong agreed to assist each another under a "repurchase agreement" where the central banks with hold a surplus of US dollars would assist another central bank that is short of that currency.

The first time the regional central banks assisted each another this year was in May when the Thai baht was under attack.

"Speculators do not care if a country goes bankrupt. What is important for them is to make money. They can do whatever they want because they have the funds.

"If we do not position ourselves, they can put the region into the same pressure again, causing currencies to tumble," Mustafa added.

However, another analyst, who requested anonymity, said the suggestion for laws on the region's currencies is "a little bit difficult to swallow."

"It is impossible to control capital flows. It will be okay if the attacks were isolated. However, on a broad base instance, there will not be adequate resources to support all currencies at the same time.

"The real question now is how central banks can work together to control the situation. You cannot control foreigners. It is an international market. The main problem would be coordination," he added.

Meanwhile, Deputy Finance Minister Datuk Dr Affifudin Omar said yesterday that the ringgit is now at a stable level compared with other currencies in the Asean region.

He said that forecasts by some quarters that the country's economic growth next year would be at 8.5 per cent also helped to strengthen the position of the ringgit.

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