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Currency plague: Asia says enough is enough

Anita Gabriel in Hong Kong

HONG KONG: Enough is enough. Asia is not going to suffer the "currency plague" sitting down.

This strong message came forth visibly in two significant international forums held last week and with it, two interesting twists took place on the issue of overcoming currency woes in Asia.

Both came from the Malaysian Prime Minister and Deputy Prime Minister and of course, as intended, it caught worldwide attention.

In Bangkok, at the two-day Asia-Europe Finance Ministers' meeting, Deputy Prime Minister Datuk Seri Anwar Ibrahim indicated that developing nations may not push for more reforms in the World Trade Organisation liberalisation package if a mechanism to protect emerging markets from excessive and abusive speculation is not put in place.

In what participants from other Asian countries described as a "bold suggestion", Anwar asserted that for the path to liberalisation to unfold smoothly, emerging markets must feel protected and not cheated.

Thus, he strongly called for the International Monetary Fund to work out a regulatory framework such as the existing prudential regulations on the banking industry, for hedge funds and investment houses.

One of course should be reminded that Anwar, who is also Finance Minister, said this in good faith and was not opposing the concept of liberalisation which he said has brought tremendous benefits to practising countries.

He also asked if Asian countries should rush into liberalisation and reap the benefits while facing the risk of external shocks and predatory speculative attack or slow down the process while enhancing their defence to withstand future.

He was merely telling the "big boys" that they will get what they want only if the small boys feel protected. "Fair enough," said a delegate from an Asian country.

As expected, convincing the Europeans at the Asem finance ministers' meeting was no easy task. In fact, Anwar described their response as "quite muted".

It must be noted, nevertheless, that the Asem finance ministers' meeting did note the importance of bringing the on-going WTO negotiations on financial services to a successful conclusion by this December.

Such liberalisation measures, they said, if undertaken in the context of a sound macroeconomic environment, will encourage increased investment and promote financial stability.

But so long as a country is plagued with spongy fundamentals, resulting in manipulators squeezing opportunity from such vulnerability to reap hefty profits, efforts to fine tune the economy may be almost impossible.

While Asian countries do seem to recognise that the devaluation of its currencies are made vulnerable by weak fundamentals, it also attributes the worsening of the situation to "ultra rich" speculators and manipulators.

A day later, in Hong Kong, Prime Minister Datuk Seri Dr Mahathir Mohamad, in a presentation much awaited by financiers and investors the world over, went one step forward at the World Bank-IMF meeting in his assertion to curb speculative and manipulative activities in currencies by saying forex trading, which is 20 times larger than trading in goods or services, should be halted as it is "unnecessary, unproductive and totally

immoral".

Describing currency trading as "secretive and shady", Dr Mahathir said it does not create any tangible benefits such as job creation and should be made illegal.

Because of such activities, the ringgit has devalued by 20 per cent, thus making its people 20 per cent poorer. It also swept nation-building efforts behind by a decade.

Dr Mahathir, while noting that he was not telling investors to leave the region, attributed the currency crisis to "a move by Western industrialised nations to keep Asia poor".

He described it as a "beggar-thy-neighbour" policy. He also defined the kinds of investments that should be encouraged such as long-term foreign direct investments and the kinds that should be controlled such as "hot money investments".

Dr Mahathir, whose speech was intercepted by loud applause from a packed theatrette, said such investors who are not really interested in fundamentals of a country and are in a market simply to make profit "are really not welcomed".

He also noted that there was no such thing as an entirely free market. It is necessary, he said, for elected governments to regulate the market to maintain order.

Even the European Commission, which seems to believe in free market and is strongly advocating it, does not practise it in its entirety, he pointed out.

In addition, he called for any liberalisation of the country's financial sector to undergo a complete review, following the recent currency crisis.

While the suggestions have provoked the thoughts of many, and will surely serve as an intellectual stimuli for some over drinks and dinner, much remains to be seen of the outcome.

How far these suggestions will actually be adopted and perhaps modified by the multilateral institutions, such as the IMF, has yet to be seen. But it goes a long way to prove that Asia has suffered enough and is eager to protect itself from further abuse.

Asia is tugging hard at the rope for protection, while the West is holding tight to the other end for liberalisation. Is a compromise possible in such a tug-of-war?

(END)