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From molehill to mountain

THE calamity that struck South-East Asian currencies and stock markets is now shaking the foundations of bourses from Hong Kong and New York to London. While the factors that caused the South-East Asian "crisis" may not be the ones behind the global stock market panic, many people have begun commenting upon "rogue" currency speculators being behind the latter, although in more hushed tones than Prime Minister Datuk Seri Dr Mahathir Mohamad used when he took to task the people he felt were behind Asia's currency turmoil. However, the reaction of the US to the New York Stock Exchange's tumble on Monday was strikingly similar to Malaysia's reaction to the Kuala Lumpur Stock Exchange's slide a few weeks ago. US Treasury Secretary Robert Rubin told investors, after the NYSE had tripped two circuit breakers and the Dow industrials had lost 7.18 per cent, not to panic and that the USalaysia economic fundamentals were strong.

When the Malaysian Government said the same thing, many considered it rhetorical and an exercise in "self-denial". They claimed that the region had created its own problems. Did the US, the UK, Germany, Hong Kong and the other developed markets bring this calamity upon themselves? It is very tempting to say, "We told you so", but we shall not. We will not even assume this was the work of rogue speculators since it seems to go against the principles of some who firmly believe that weak economic fundamentals and not currency speculation, are to be blamed. However, the slump in the Hang Seng index last Thursday has been directly attributed to pressure from speculation on the Hong Kong dollar. We shall assume that weak economic fundamentals and market forces have brought down these global markets. Does this mean that the economic fundamentals of the US and Hong Kong are not as strong as statistics suggest? If that is the case, what should these economies and their markets do?

In the case of Malaysia, when fund managers and investors threatened to flee or had fled after a prolonged bearish performance, the Government was told to delay mega projects, slow the growth of its GDP to 4-5 per cent, address the current account deficit and cut Government expenditure. When the Government tabled the 1998 Budget, economists and analysts said the measures proposed under the new budget were too weak to boost confidence in the Malaysian economy. A Hong Kong-based fund manager who attended a meeting with the Malaysian Government about a month ago, said the Malaysian Budget should have contained more drastic measures. Are we now going to prescribe the same medicine to the US and Hong Kong Governments?

Probably not, because economists know how strong the Hong Kong and US fundamentals really are. Hong Kong, for example, has reserves of some US$80 billion (US$1 = RM3.40), one of the highest in the world. Mr George Soros, the US financier whom Dr Mahathir linked to the South-East Asian crisis, was in Hong Kong recently and said that he feared for any speculator trying to attack the Hong Kong dollar. The economy of the US, which defended Soros against Dr Mahathir's allegations, has been enjoying an amazing streak in terms of economic growth. But if the economic fundamentals of these countries - and those of Germany, the UK and other developed countries - are so strong, why are they suffering the same fate as countries in South-East Asia whose economic fundamentals are supposedly weak?

Countries in South-East Asia will certainly want to get to the bottom of this, as there must be valuable lessons to learn from markets in countries whose economic fundamentals are strong. But more than that, we want everybody to get to the bottom of the issue. There are certainly more than economic fundamentals or market forces at work here, and the international community must confront this reality. At the same time, nobody should be in too much of a hurry to remind themselves that if they had listened, and done something to address the crisis in South-East Asia, less damage would have been sustained.

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