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It is a very small economic world after all

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WHEN on Saturday, I pointed out to an editor of Hong Kong's South China Morning Post that the newspaper's front page report on George Soros losing US\$2 billion (US\$1 = RM3.42) in the worldwide stock market tumble should make some people happy, he quipped:

"A lot of people in Hong Kong are happy too."

Such a reaction was not unexpected following the speculative attack on the Hong Kong stock market a week ago that saw the Hang Seng index tumbling and dragging down the world's stock markets.

For months, the Chinese Special Administrative Region (SAR) had successfully isolated itself from the relentless and debilitating attack on the South-East Asian stock exchanges and currencies.

Many observers had attributed its apparent invincibility to the watchful eyes of Beijing.

So when the attack finally came and Hong Kong's defences were breached, the shockwaves quickly hit the stock markets around the world.

Suddenly, the mighty New York, London, Frankfurt, Paris, Sydney and Wellington stock exchanges were not as safe and protected as had been thought and expected.

With it, a new chapter was written into the history of the free market of the West - that it is no longer isolated and protected from economic developments elsewhere in the world.

It also shows that the combined strength (or in the present case, weakness) of the newly emerging economies of South-East and East Asia is beginning to have a major impact on the world economy.

Although many in the West had earlier tried to play down the negative effects of the South-East Asian currency and stock market crisis on their economies, they were forced to accept the truth when the fall of the Hong Kong stock market sent their own markets reeling.

Many in the West started to take a closer look at the effects of excessive speculation on the markets.

Of course, they would not say so openly after having resoundingly condemned and ridiculed the Malaysian Prime Minister, Datuk Seri Dr Mahathir Mohamad, for suggesting the banning of currency trading or for rules and regulations to be imposed on it.

Suddenly, Dr Mahathir was not talking nonsense after all.

While Western governments, their policymakers and traders continue to warn against interfering with the so-called market forces, the ground has been prepared for a closer examination of this issue.

Reflecting the fear that this is gaining momentum, the chairman of the US Federal Reserve, Mr Alan Greenspan, was quoted by international news agencies as suggesting that he sympathised with Asian policymakers, who he said must now fend off domestic pressures to seek disengagement from the world trading and financial systems.

But far from suggesting that South-East Asia should disengage from the world trading and financial systems, Dr Mahathir recently repeated the call for the strengthening of the system.

Speaking at the Commonwealth Heads of Government Meeting (CHOGM) in Edinburgh, Scotland, he alluded to the need for a level playing field where players should also be of equal strength.

Acknowledging that a prolonged South-East Asian economic crisis would affect the global economy adversely, Greenspan, considered the world's

most influential central banker, was at pains to predict that Asian economies should be able to sustain above average growth for a very long time despite the currency and stock market turmoil.

Greenspan, who devoted more than half his prepared testimony to the US Congress last week to financial unrest in South-East Asia, also held out the possibility of temporary US financial help to regional governments.

"It is in the interest of the US and the other nations around the world to encourage appropriate policy adjustments, and where required, provide temporary financial assistance," he said.

It is for this reason too that Malaysia, in spite of its own difficulties arising out of the currency and stock market attacks, is extending a helping hand to Indonesia and Thailand by offering a loan of US\$1 billion to each of them.

But Greenspan is not the only Western policymaker to come out openly and express confidence in the long-term prospects of Asian economies. Stung and stunted by the extent of the effects the fall in Asian currencies and stock markets have on their own economies, they have changed their attitude and stance.

They now realise the importance of South-East Asia as a dynamic economic region to their own wellbeing.

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