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No country is safe when it comes to currency speculation

A. Kadir Jasin in Edinburgh

WE are not alone in our concern.

The Prime Minister could not have chosen a more opportune time, although it was more of a coincidence, to talk about the perils of living in a liberalised and globalised world without laws.

Datuk Seri Dr Mahathir Mohamad took to the podium as the first speaker of the executive session of the four-day Commonwealth Heads of Government Meeting on Friday at the time when the Asian currency and stock market crunch had just hit Europe.

The sudden plunge of the Hong Kong stock market a week ago had sent shock waves through the European bourses, causing all of them to lose ground.

Suddenly, the Asian Tigers' illness, which Europe and America had for months blamed on the region's allegedly weak economic fundamentals, threatened to become a global malady.

Suddenly too, Europe and America changed their stance, blaming the battering of the Hong Kong stock market not on weak fundamentals, but on "speculators trying to break its currency system" as the London's Financial Times newspaper did.

The Express on Sunday newspaper, in its simulated Question and Answer on the effect of the fall in the Hong Kong stock market has the following to say:

"Far Eastern currency has all been under pressure ever since speculators forced Thailand to devalue its currency", but the newspaper said the speculators were led by powerful hedge funds.

Although Hong Kong staged a rebound towards the close of last week's trading with the blue-chip Hang Seng Index improving 6.9 per cent on Friday, the Western stock markets remained unsettled.

Dr Mahathir who has for weeks been maligned and ridiculed by domestic and international critics for his attack on currency speculators and manipulators, found an attentive audience in Edinburgh when he called for balance between globalisation and the need to defend the weak from the strong.

He said while the advent of the Information Age had left nations with no choice but to become more liberal and accept globalisation, the breaking down of borders, national policies and laws should not lead to lawlessness.

The Prime Minister said: "But doing away with borders, national policies and laws does not have to mean doing away with rules and regulations completely."

Dr Mahathir said the world should have a properly legislated code of behaviour which are capable of overcoming and protecting the weak from the strong.

Creating a level playing field does not guarantee fairness unless the players are evenly matched. Otherwise, he noted, the disadvantaged would only be further disadvantaged in a world without borders and barriers.

As the development of the past week has shown, neither the weak nor the strong are completely protected when it comes to currency and stock market speculation. Both the developed and developing markets are affected by these speculative attacks.

The difference is in the degree. The bigger losers are the developing countries and their citizens. This is because they are not powerful enough

to defend themselves and least still to carry out such an attack.

The European and American stock markets and currencies may suffer temporary setbacks in the hands of the speculators. But these raiders are their own companies and citizens.

They are people who set up funds purely for the purpose of making profits by trading in currencies. As pointed out in this newspaper on Saturday (Ins and outs of currency trading and hedge funds), although they claim to be operating hedge funds, these people have little or nothing whatsoever to do with hedging for the purpose of reducing currency-related trading risks.

As argued by the writer of the article, these funds are set up with the core capital coming from rich investors with the sole purpose of taking large currency positions and making money out of such operations.

They have nothing or little to do with the original hedging in currencies for the purpose of reducing or avoiding the risk arising out of the changes in the exchange rates.

It is noteworthy, therefore, to recall that the Commonwealth heads of government through their "Edinburgh Commonwealth Economic Declaration", issued on the second day of the meeting, recognise the need for active participation by all countries in economic decision-making in key international forums.

The declaration also calls for the removal of obstacles that prevent developing countries from playing their full part in shaping the evolution of the global economy.

What is especially significant to Malaysia is the agreement by the heads of government to "study the lessons to be learned from the recent developments in currency markets and in particular on how countries can be protected from the destabilising effects of market volatility, including those resulting from speculative activities, and how the effectiveness of existing early warning systems can be improved".

The heads of government agree to support the strengthening of global and regional mechanisms to help countries handle capital market volatility.

Malaysia's call for the reexamination of currency trading has clearly not fallen on deaf ears. Dr Mahathir is not totally out of tangent with the rest of the world in making such a proposal. There are enough people who think the proposal makes sense.

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