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Push for more regulated exchange rates

MONEY does not really make the world go round, but the US dollar just did. With its rise - described as excessive by some - the greenback has got finance ministers and central bank governors of the Group of Seven (G-7) industrial nations very jumpy and ready to jump on the flight to Washington this weekend to put a stop to the dollar's growth. There they are expected to decide to fight against a further increase. During the meeting, participants are also to show their readiness to take concerted action, including intervention in the market, if a rise in the US currency were to continue. This, of course, is a reversal of the finance ministers' decision prior to February, when they last met in Berlin. What triggered the mind-change, probably, were remarks made last week by Japanese Finance Minister Hiroshi Mitsuzuka, who said he was concerned about the dollar's strength against the yen. Mitsuzuka described the gain by the greenback as "excessive" and had warned of possible central bank intervention. Both the Japanese and US industries also showed concern about a strong dollar, which is to technically reduce the market value of Japanese products overseas and make foreign goods expensive in Japan. The US Big Three carmakers and other car-related firms expressed worries last week that the US-Japan motor vehicle trade pact could be undermined by the weak yen. They were joined by 33 other firms signing a letter to Commerce Secretary William Daley claiming that recent trade data show the US motor vehicle trade deficit with Japan "may be growing again."

Others outside the G-7 may also be relieved to read reports that the industrial countries are acting on the dollar's gain and doing it soon. For Malaysia, although the ringgit has been able to hold its own, the dollar's rise has forced the central bank to intervene in the market on a couple of occasions. Throughout the region, the same trend has been observed. And knowing that central bank's intervention will only slow down the inevitable weakening or strengthening of a currency, the dollar's strength has been a source of concern outside the G-7, some more than others. But in case anyone in the money market is thinking of celebrating, it would be wise to wait and see what will come out of the G-7 meeting. But regardless of what happens in Washington, make no mistake about the intention of the G-7 exercise, though. The chief beneficiaries of the move will still be members of the group themselves. If the Malaysian market, or for that matter any market outside the G-7, benefits from the decisions in Washington, it should be considered a pure coincidence.

For the exchange rate, especially that which involves the yen and the dollar, has grown to become more than just an international instrument to state the value of a currency vis-a-vis another currency. In reality, the exchange rate has become a political tool. Sometime ago, the yen came under attack from some other major currencies, causing it to grow against its will. This was done through money market speculation and manipulation, which is possible if a currency is backed by powerful financial institutions in the country where the currency belongs, or groups of financial institutions from several countries that support that particular country. The similarity in the situation now and then is that both involved the yen at the receiving end. Prime Minister Datuk Seri Dr Mahathir Mohamad once described the movements of the yen as "a moving target" and a "new strategy of the West". Malaysia has called for some form of regulation for exchange rates to eradicate the uncertainties

brought about by the existing system. Malaysia's concern is valid, given the correlation between exchange rate and trade: a 1 per cent rise in exchange rate could mean a 1.7 per cent fall in exports. The G-7 plan to "agree on something" in Washington this weekend, therefore, does not necessarily mean good news for Malaysia. What is sure is that Malaysia will have to monitor the situation closely. In the long term, perhaps greater push will be needed to ensure that world exchange rates are more regulated.

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