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The darker side of currency trading

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THERE are three fundamental issues that form the foundation of Prime Minister Datuk Seri Dr Mahathir Mohamad's speech at the 12th annual general meeting of the Pacific Economic Co-operation Council in Santiago, Chile, on Tuesday.

It was a provocative speech to some and hard-hitting to others. But those who believed that Dr Mahathir should shut up shuddered.

The first fundamental issue was his unequivocal support of free trade; second, his objection to currency trading and third, his refusal to submit to the threat of manipulators.

In the case of the first, he envisaged a free global trading system founded on equality, equity and mutual benefit - an ideal based on the enrich thy neighbour policy.

He slammed the free market preached by the developed North that calls for the opening up and liberalisation of trade no matter how weak or disadvantaged a country is - the level playing field that pits economic giants with hundreds of years of economic development against poor former much-exploited colonies of the West.

Even as the Prime Minister spoke, the hypocrisy of international relations was displayed when the administration of US President Bill Clinton threatened to apply sanctions against French oil company, Total, for investing in Iran.

The reason the US objects to the project, which also involves Malaysian and Russian investors, is that it will strengthen Iran's position.

The US, as we all know, labels Iran a supporter of international terrorism. The French Government scoffed at the objection, saying US laws did not apply in France.

To avoid the embarrassment of being ignored by its European ally, the Clinton administration quickly withdrew from its stand, saying that it hoped France would use its influence on Iran "to stop the country from sponsoring terrorism".

In the case of the second issue, Dr Mahathir argued that currency trading was not only unnecessary to free trade but had retarded it by introducing the element of uncertainty.

If outlawing currency trading was not possible, the Prime Minister proposed that it be regulated and made transparent, citing the examples of share and commodity markets.

Simplistic as they might have sounded to the high priests of free market, his arguments are not without logic. In fact, they are so simple than even an average person can understand them.

To the manipulators, he has committed yet another sin - telling the masses in language they can understand the darker side of currency trading.

HAVING said that, it is necessary for us to gauge and understand the effects of the Prime Minister's stand on the Malaysian economy as a whole and the ringgit in particular.

The ringgit, as Dr Mahathir pointed out in his PECC address, has been taking a beating since June despite Malaysia's economic fundamentals remaining strong.

Whether it was coincidental or otherwise, Dr Mahathir's statement to Malaysian, Chilean and foreign journalists in Santiago on Monday that

currency trading must be regulated was followed by a further decline in the ringgit's value.

Even if it was coincidental, which Dr Mahathir admitted could not have been the case, the fact that really matters is, the value of the ringgit has fallen further.

Translate that into hard economic facts and we will find that Malaysia's exports have become cheaper. If this is followed up by specific marketing plans, the country may be able to use its new-found competitiveness to attract more buyers and make more sales.

Increasing the volume of sales is important because to get the same amount of US dollar, we have to sell more. To obtain the same amount of US dollar, Malaysia has to sell 23 per cent more goods and services. This is how much the ringgit has declined against the American currency.

Similarly, we have to spend 23 per cent more ringgit to buy the same amount of goods and services as we did before the ringgit started to slide.

For some items, we may be able to continue to spend the same amount and get less. Or we can import them from cheaper sources and get the same amount of merchandise or services.

But there are goods and services that we cannot do without. Take the essential food items, for instance. If we allow imports to fall because we do not want to spend more ringgit or cannot afford to do so, there will be shortages in the marketplace. This could lead to an increase in retail prices.

Likewise, we cannot just stop educating our students abroad. Tens of thousands of them are already in foreign universities and colleges. We now have to spend more ringgit to pay the same amount of fees and living cost.

So while we try to find long-term solutions to our current problems, including changing the global trading and trade financing systems, we have to develop immediate plans to overcome the effects of the ringgit and stock market decline on the masses.

It is counter-productive and dangerous for politicians, corporation heads and agency administrators to make statements about the likely effects of the ringgit's decline on the people without developing plans to overcome them.

Most large companies, corporations and wealthy members of society may be able to withstand the effects of the decline of the ringgit and stock market for months or even years.

After all, they are well aware of the vagaries of the rapidly globalising economy and the risks involved when they invest or when they speculate in the stock market.

But this may not be so with the smaller companies and the average person. They hardly speculate in the stock market and have little to do with the ups and downs of the currency.

It may, therefore, be morally and politically untenable to allow them to suffer the consequences of the current development without sufficient efforts being made to provide them with a safety net.

The first thing we must do is to ensure that our students, whether they are studying at home or abroad on scholarship or private financing, do not drop out due to the fall in the ringgit's purchasing power.

Perhaps the Education Ministry and/or some well-off corporations and foundations may wish to consider creating a loan fund for students in this time of need.

AS for the medium and long term, Malaysians must learn to be reasonable in their expectations and be more resilient.

Economic liberalisation that has brought about rapid growth and rising

wealth in the last one decade has its negative side. It makes Malaysia more vulnerable to external influences.

While we take pride in being the second fastest growing economy in Asia after China and enjoy the fruits of our success, we cannot expect this high rate of growth to continue forever.

Even when the economy was growing at above eight per cent per annum, the Government had repeatedly warned that as the economy became more mature, the rate of growth would progressively decline.

Growth of six to seven per cent is often cited as the level that the country needs to attain in order to achieve the goals of Vision 2020.

Hence, the consolidation of the economy at this time, even though forced upon us by the sudden fall of the ringgit and the stock exchange, may be good in the long run.

We may not want to admit it, but there are enough signs to indicate that our economy is becoming too hot. Slowing it down a bit may not do much harm as long as we can gradually re-establish the strength of the ringgit and the stock market.

We are often told that in a market economy, price is determined by supply and demand. When supply exceeds demand, price falls. Conversely, when demand exceeds supply, price increases. When supply matches demand, true price is established.

But this seems not to be the case with some goods and services in our country. When it was statistically established that the supply of certain types of properties had exceeded demand, the price did not fall. Instead, it went up on account of speculation.

But speculation, as we all know, cannot support the market forever. There will come a time when the speculators will sell their holdings either to reap profit or to cut their losses. When this happens, the market collapses.

Eight per cent plus annual growth should not be considered sacred and to be defended at all costs. A lower rate of growth accompanied by a stable ringgit and low inflation is a better target.

By any comparison, our economy has been growing extremely rapidly. For the period that we had been experiencing eight per cent plus growth, our neighbours Singapore grew by 6-7 per cent, Indonesia (six), the Philippines (5.6), Brunei (3.5) and Thailand (2.5).

A growth of between six and seven per cent for the coming years should be more than acceptable.

IF the attitude of the Malaysian businessmen now accompanying the Prime Minister on his four-nation, 12-day tour of the Caribbean and South America is of any significance, it is fairly safe to conclude that while they are concerned with the current economic situation, they are not in despair.

But I have to qualify by stating that except for a few, the real movers and shakers of the Malaysian corporate world are missing from this trip.

According to reliable sources, many of them had registered to join the trip that takes the delegation to Cuba, Chile, Uruguay and Argentina but dropped out when the currency and stock market problems developed.

This is understandable. In the current circumstances, we can expect some of them to be temporarily immobile. Let us hope that they remain movers and shakers of the economy although for the moment they may be shaking instead of moving.

Those on the trip seemed composed and were as jovial as ever - exchanging recycled jokes (mostly off-colour) - led by "storyteller" Datuk Ahmad Johan, the new Airod controlling shareholder.

They still shopped for Cuba's famous "Cohiba" cigars and South American

leather goods.

In recent years, as more Melayu and Cina Baru join the ranks of towkay, millionaires and corporate kingpins, the cigars have become the symbol of good living and economic power.

They are the ultimate initiation tool for entry into the inner sanctum of the corporate temple where hedonism is an article of faith.

But what struck me more was Dr Mahathir's response to the warm welcome he and his delegation received from the host countries, especially Cuba, which he visited for the first time.

Speaking to Malaysian businessmen at the end of the Cuban visit, the Prime Minister said: "They are extremely friendly. They think we have many things in common ... until some of you start to cheat them."

In line with our policy of "enrich thy neighbour," the significance of Dr Mahathir's warning should not be overlooked even though it was made in jest.

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