

17 MAR 1998

## ASEAN BEGINNING TO APPRECIATE ITS OWN CURRENCIES

News Focus

By: Salbiah Said

KUALA LUMPUR, March 17 (Bernama) -- By now, major players of Asean -- Malaysia, Thailand, Indonesia, and the Philippines -- would have better understood the hard and bitter lessons of seeing the value of their currencies drop against the US dollar.

Given the predominance of the greenback in world trade, these countries have to endure the accompanying hardships when the US dollar appreciates against their currencies.

But another school of thought has emerged: why use U.S. dollars when you can conduct transactions in baht, rupiah, Singapore dollar or peso for intra-Asean trade?

"We may reject it as a hare-brained idea, but there is no harm in examining every possibility of restoring the health of our economy," Prime Minister, Datuk Seri Dr Mahathir said when he proposed the Bilateral Payments Arrangement (BPA) last December as a means to cushion the impact of the US dollar's appreciation against the region's currencies.

The proposal is aimed at reducing the region's dependence on the U.S. dollar and helping to revive weak Asean currencies, which have fallen sharply in value against the U.S. dollar since last summer.

In the past few weeks, Dr Mahathir's so-called "hare-brained" idea has won support from his Asean counterparts in the Philippines, Thailand and Brunei. Indonesia had also agreed to take part in the trade scheme despite earlier misgivings about joining immediately because of its volatile rupiah. It was also endorsed by Asean finance ministers in Jakarta early this month.

Central bank governors from Indonesia, Malaysia, the Philippines, Singapore and Thailand also met in Jakarta last month to look into the proposal to use local currencies with members of Asean which groups Brunei, Indonesia, Laos, Myanmar, the Philippines, Singapore, Thailand, Vietnam and Malaysia.

Its mechanism, Dr Mahathir says is simple. "It is what we have been urging all the time...to get away from having to use currencies not belonging to Asean.

"The central banks in each country will set up a clearing house...and settle trade transactions on a daily basis. With the advances in information technology, this can be done up to the minute. But the BPA would start as soon as possible," he said.

It has been proposed that regional central banks would act as clearing houses for trade payments and would offset each other's receivables and pay the difference in dollars.

Central banks, government financial institutions or private entities would act as clearing agents for trade payments, offsetting each other's receivables and paying the difference in dollars. Trade would be periodically settled between clearing agents of participating countries on a net basis, thereby reducing the amount of foreign exchange required.

International trade and industry minister Datuk Seri Rafidah Aziz says: "As long as traders are willing to accept each other's currencies and as long as there is something to buy and sell that can be offset or settled with the currencies they have, the practice can start right away."

MITI figures show that last year 73.6 percent of Malaysia's exports or US\$162.95 billion and 64.9 percent of imports or US\$143.426 billion were conducted in US dollars. Malaysian exports totalled US\$221.4 billion and

imports US\$221 billion in 1997. Only two percent, US\$4.43 billion of total exports, and 10.6 percent, or US\$23.426 billion, of total imports were transacted in yen.

Thai Finance Minister Tarrin Nimmanahaeminda, on his return from meetings in Jakarta recently, said that Thailand will start using baht for intra-Asean trade within three months, beginning with a shipment of palm oil from Malaysia.

Palm oil is currently priced in US dollars, even for the Malaysian market and yet its cost is in ringgit, a currency that has been devalued.

"While we do not grudge the windfall profit our exporters get due to the devaluation of the ringgit, we think that the domestic market should not be burdened by the extra profits which palm oil producers would get by selling in the domestic market at export prices," says Dr Mahathir.

Last Friday, Rafidah announced that the Cabinet has decided that all government tenders must be quoted in the ringgit or in the supplier's currency.

"It is not that we do not want to use the US dollar or pound sterling. But by using the local currency or the supplier's currency, we can create a higher demand for our own currency."

However, Rafidah said the government must lead the way for the private sector in the use of local currencies in international trade, adding that a new culture in international transactions needs to be nurtured.

"For a start, we are trying with Asean countries and will later expand to other trading partners in the rest of the world."

Amidst the latest developments, Myanmar had also agreed to taking part in the Malaysian initiated scheme for intra-Asean trade using regional currencies.

Analysts said Asean members would need time to turn the idea into something more tangible. They feel that the Asean currency plan may not offer an instant panacea for the region's financial problems and could face resistance from some.

Some economists also doubt that the proposed measure will do much to reduce dependence on the U.S. dollar since trade within the region remains relatively small, reaching only 22.8 percent of the total US\$170.6 billion traded by Asean nations in 1996.

While they agree that over-reliance on the US dollar had put a strain on Southeast Asian countries, particularly since the financial crisis has sent the value of their currencies plummeting, they say the yen might be a better counterweight.

Japanese Vice Finance Minister for International Affairs Eisuke Sakakibara said in Kuala Lumpur recently that Asian nations depended too much on the US dollar and should use the yen more widely in regional trade.

"Use of local currencies for intra-regional trade, I think, is an effective counter-measure to cope with the situation. For the Japanese-Asean trade, more use of the yen may be commendable and we will investigate ways (for them) to use more yen in trade with Japan.

As Dr Mahathir puts it: "The system and the game rules of a globalised world might not favour Asean now "but we will learn to handle them in time and we will bounce back, possibly stronger than before.

"What we need to do now is to build up our internal strength, our organisation and our unity and then we will overcome." -- BERNAMA

SS SHY