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Better late than never

JAPAN'S Finance Minister Kiichi Miyazawa's call for the establishment of a fund to protect the region's currencies and fight off speculators is good news. Such a fund was initially proposed by Miyazawa's predecessor, Hiroshi Mitsuzuka, at the height of the Asian currency crisis last year, but it was aborted due to pressure from Washington.

The rekindling of interest in the fund reflects the impatience of many, to borrow the expression by Prime Minister Datuk Seri Dr Mahathir Mohamad, in the ponderous movements of the great powers to reform the international financial regime. Asian countries do not have the luxury of time, much less resources, to wait for the G7 countries to go into action. Japan knows this just as it has realized that it is acting in enlightened self-interest when it commits a US\$30 billion aid package to help resuscitate the ailing economies of Asia.

But if Miyazawa is serious about the Asian fund, which he describes as a "regional currency support mechanism", Japan should be prepared to play a leadership role in ensuring that it becomes a reality. The first hurdle is Washington which, as a rule, does not consider any establishment that excludes it as beneficial.

Going by its arguments in the past, the opposition from Washington is centred on the sentiment that the fund will undermine the authority of the International Monetary Fund and it will deter crisis-stricken countries from pursuing tough monetary policies and structural reforms. But Japan has seen, and acknowledged on many occasions, the impotency and high social costs of IMF prescriptions in the countries receiving assistance from the organisation. In this context, Washington's contention no longer holds water. Japan must realise this and more important, it must not yield to any pressure from Washington this time.

The rationale for having the fund is compelling. It would enable an effective co-ordination of efforts among the Asian countries to stabilise their currencies. In its earlier genesis, the fund would pool together sizeable amounts of money from countries rich in reserves such as Japan, China, Taiwan, Hong Kong and Singapore into a US\$100 billion war chest to be used for defending the region's currencies against speculative attacks and sudden capital flight. There have been other suggestions that countries without high reserves should also contribute.

Miyazawa's statement that it is Japan's task to "examine the possibility of creating an exchange regime that will bring greater stability on one hand and the needed flexibility on the other among the yen, the US dollar and the euro" lends hope that the exchange rates among these anchor currencies will be stabilised. Volatile fluctuations of the anchor currencies in the past were a major reason why Asian currencies suffered.

But Japan must lead the way in ensuring that the world's currency system will also make adjustments for different inflation rates among countries. Inflation in Asian countries is higher than Europe or the United States. Without adjustments to the inflation rates, the international competitiveness of each country will fall according to the gap in the rate and thus impede efforts by Asian countries for an export-led economic recovery. It should also consider the merit in co-ordinating the interest rate policies of the anchor currency nations with those in Asian countries. Such harmonisation will minimise volatility in short-term capital flows and exchange rates.

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