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Confidence `the key to success of BPA scheme'

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CONFIDENCE in each other's currency is the key to the success of the proposed Bilateral Payment Arrangement among Asean countries using Asean currencies, endorsed at the recent Asean Finance Ministers meeting in Jakarta.

A senior economist with a stockbroking house said yesterday that the BPA idea was a good one.

"If the BPA is implemented, our trade, of which 70 per cent is conducted in US dollars, may be reduced to about 50 per cent in the long run.

"However, the important point here is that traders must have confidence in each other's currency.

"At the moment, the Thai baht and Malaysian ringgit have somewhat stabilised. Only the Indonesian rupiah is a bit volatile.

"The question is whether traders will want to trade using the rupiah due to its volatility. They may want to go back to a more acceptable currency like the US dollar.

"Thus for the PBA to work, some problems have to be ironed out, like how to trade if one currency is volatile.

"This is one of the points that have to be drawn up in the guidelines."

According to the International Trade and Industry Ministry figures last year, 73.6 per cent of Malaysia's exports, or US\$162.95 billion (RM062.915 billion), and 64.9 per cent of imports, or US\$143.42 billion, were transacted in US dollars.

Prime Minister Datuk Seri Dr Mahathir Mohamed, commenting on the BPA proposal on Sunday, had said that the "policies and guidelines would ensure that the proposed use of Asean currencies would be effective and would not negate efforts to reduce the region's dependence on other currencies such as the US dollar".

Dr Mahathir also said that the central banks of Asean countries would set up their respective clearing houses to facilitate implementation.

It is understood that the central banks of Malaysia, Thailand and the Philippines, which will be the first to use their own currencies in bilateral trade, are co-ordinating efforts to create the mechanism for the Asean payments arrangement.

The economist added that using the central banks of respective countries to set up clearing houses should not pose a problem. "But there are also several other teething problems which will have to be ironed out before the proposal is implemented like the payment period and pricing.

"However, basically there must be faith in each other's currency," said the economist.

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