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Curbing global hedge funds

NEVER mind that it took the International Monetary Fund ages to discover the truth; its admission this week that there is a need to curtail the activities of powerful hedge funds is significant. Coming soon after the European Union had joined its Asian partners in the Asia-Europe Meeting in calling for currency trading to be regulated, the IMF's suggestion that governments take measures to curb the powers of hedge funds vindicates Asian leaders who have been seeking an international consensus for a crackdown on those responsible for wreaking havoc on the region's currencies, forcing South Korea, Singapore, Thailand, Indonesia, the Philippines and Malaysia to put the brakes on their rapid economic growths.

Malaysia has been one of the first and loudest to call for a long-term solution to the financial turmoil that hit the region last July. At the IMF-World Bank annual meetings in Hong Kong last September, Prime Minister Datuk Seri Dr Mahathir Mohamad even called for foreign exchange speculative activities to be outlawed. Support for the call to regulate currency trading was excruciatingly slow. The Association of South-East Asian Nations and the Group of Fifteen developing countries were among the first to back Malaysia, but the ones to convince and persuade were really the industrialised countries where these hedge funds came from. The EU's strong support for Asia's course at the Asem meet in London last month was, in fact, the first time Europe has collectively taken a stand on the spectre that has been haunting South-East Asian for over nine months. The IMF's stand can be viewed as representative of Washington's stand, which is why the Fund's suggestions must be taken up quickly by the countries affected.

The IMF has suggested that banks and brokers raise the margin and collateral requirements for the hedge funds so that their ability to take positions in financial markets are limited. It also raised the possibility of preventing financial institutions from lending domestic assets to non-residents to check funds taking short positions in currency markets. By going short, funds sell a currency they do not have in the hope of buying it back later at a cheaper rate. The IMF suggested that regulators replicate mechanisms already in place in the US as a way of rendering hedge fund operations more transparent. In order to be effective, the Fund said any system of detailed reporting on portfolios and positions held by hedge funds will have to encompass banks, insurance companies and pension funds and be applied by all countries.

But these are mere suggestions. It is one thing to say that something needs to be done to curtail the activities of the hedge funds; it is another thing altogether to try and go up against these funds. One must not forget that with a total credit capability of US\$180 billion (US\$1 = RM3.77) to handle their forex dealings, the hedge fund managers are very powerful people. Combine their strength with the international banks' capability and there is some US\$500 billion worth of funds for forex dealings. All the countries affected by the financial turmoil combined will not have enough muscle to move the funds.

What is needed is a global effort led by the relevant world authorities. The IMF and the World Bank fit the billing but they will need not only the support but also the guidance of governments in South-East Asia. Input from countries like Malaysia are important not only because they are

directly affected by the turmoil but because they had quickly grasped the cause of the turmoil. In this context, Asean has a potentially major role to assume. It is influential among most groupings in the developing countries and its finance ministers are also involved in meetings with EU finance ministers, led by the UK, to try and agree on issues to be raised by Asem at the IMF-World Bank spring meetings in Washington. But it is crucial that Asean remains united in facing the currency issue and the efforts in dealing with the changing financial structure of the international system. Asean and the developing countries must now take the lead in dealing with the issue and be wary of some who may want to hijack the matter and manipulate it to serve their own vested interests.

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