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`Direction set for market regulation'

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MR James Wolfensohn, the World Bank president, says he could envisage the creation of an international mechanism to regulate financial markets but does not see this happening anytime soon.

"From my experience it will not happen quickly but I think the direction is now clear and something like that will emerge," he told a press conference at the end of his two-day visit of Malaysia.

Wolfensohn said the issue of financial market regulation was raised during his meeting with Prime Minister Datuk Seri Dr Mahathir Mohamad, who had first been heavily criticised but later largely credited for advocating the idea of international regulation of currency trading to prevent future financial crisis.

"I think that many people, including (US financier, George) Soros, have taken the view that massive unregulated flows of financial funds can be very disruptive to the market," Wolfensohn said.

"The daily turnover on the foreign exchange market is 40 times more than the amount needed for investment and trade.

"While there is a general belief that speculation in foreign exchange is not the single cause of the currency turmoil, it can accelerate the crisis," he added.

Soros, who had challenged Dr Mahathir's idea of regulating currency trading, later changed his mind, reportedly after heavy losses on the foreign exchange market.

At the World Economic Forum in Davos, Switzerland, late last month, Soros in fact called for a new international mechanism to regulate financial markets, saying existing international financial institutions could not cope.

Soros also said that economically advanced countries have set up elaborate systems to maintain stability in their financial markets, "but we don't have adequate international arrangements and that is where the problem is".

Asked to comment on Soros' views, the World Bank chief said: "I am not personally anxious to be a regulator of the international financial funds market and I hope that everybody agrees with Soros that we are not the people to do it."

The World Bank is however prepared to contribute to the initiative and will participate in discussions on the issue, he added.

Wolfensohn said based on the feedback from the Davos meeting and with the consensus from countries like Malaysia, there is a "clear direction" towards regulation of the financial market.

However, he pointed out that regulation on a single-country basis will not work. "I do think it needs to be on an international scale."

Wolfensohn, who arrived in Kuala Lumpur on Sunday, is now in Indonesia and will be in the Philippines and South Korea later in the week to complete a six-country tour. He had earlier visited Thailand and Singapore.

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