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Hot money to be tackled at source (HL)

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THE Asia Pacific Economic Cooperation (Apec) has called for the setting up of a task force to address international capital flows at source - financial institutions in the industrialised economies, including investment banks, hedge funds, institutional investors, and highly leveraged and offshore institutions.

In their Kuala Lumpur Declaration, the Apec leaders said they "attach special urgency to examine the scope for strengthened prudential regulation of financial institutions in industrialised economies to promote safe and sustainable capital flows, to encourage sound analysis and better risk assessment".

The leaders also see the need to examine appropriate transparency and disclosure standards for private sector financial institutions involved in international capital flows, and the implications of operations of highly leveraged and offshore institutions.

"We call for the early establishment of a task force including the systemically significant economies to develop practical proposals in these areas," the Declaration reads.

While not specifically mentioning currency speculators, these proposals address the operations of financial institutions which, because of their access to large amounts of money, are capable of manipulating the currencies of nations.

The Declaration was read by Prime Minister Datuk Seri Dr Mahathir Mohamad, the host of this year's Apec meeting, at the leaders' retreat at the Cyberview Lodge in Cyberjaya.

Speaking at a press conference later, the Prime Minister said Malaysia has said from the very beginning that the activities of these institutions should be properly regulated.

"It is quite clear now that the Apec countries subscribe to the same view," Dr Mahathir said.

The Declaration also calls for a review of the practices of international credit-rating agencies to promote greater effectiveness and to contribute to sustainable capital flows.

Asked about this at the press conference, Dr Mahathir said: "If credit-rating agencies are made to be more responsible and confine their ratings to institutions that they are asked to rate, then they would be doing a service... a general rating that does not take into consideration many positive factors is not helping anyone."

The Apec leaders also acknowledged the need to strengthen the preparedness of their own domestic financial systems to withstand the potentially destabilising impact of short-term capital flows and to ensure the allocation of long-term capital to productive uses.

"We therefore call for the adoption by member economies of internationally recognised principles for enhancing supervision of banking systems and securities markets."

Dr Mahathir said the leaders agreed that an expanded Group of 22 (G-22), which currently comprises the industrialised Group of Seven and the developing Group of 15 countries, is the appropriate forum through which efforts to strengthen the international financial system will be pursued.

"We have decided that in order to progress further, particularly on the financial crisis, we need to seek a forum that will get the support of a majority of countries in this world.

"Apec is a body geared for action within Apec. But here we are dealing with something that involves all countries in the world, and Apec cannot decide something and get the rest of the world to accept Apec's decision," he added.

At present the G-22 meeting is attended by ministers of finance and central bank governors of the respective member countries. Dr Mahathir said the Apec leaders discussed the possibility of having a G-22 Summit to enable more concrete action to be taken by the grouping.

He said this does not mean that Apec is any less relevant.

"It is still relevant, but Apec is not an organisation that can make decisions for the rest of the world. We can discuss what we can do to influence the world, but we cannot discuss about the world. Insofar as what we have decided to do about the currency crisis, I think we have done as much as we can," he said.