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IMF sees the light

IT could be recalled that Datuk Seri Dr Mahathir Mohamad in his relentless campaign for reform of the "messy, unreliable and destructive" international financial system, said just some four months ago that the greater economies were in no hurry to change the system. This view, it was noted, was expressed with a great measure of resignation on the part of the Malaysian Prime Minister that such a call for change, though vital, would fall on deaf ears. This, he said, stemmed primarily from the fact that the rich nations were benefitting from the present lopsided system, particularly in uncontrolled currency trading.

Taking his campaign to yet another international forum in Tokyo a month later on the urgent need for such reform, Dr Mahathir's suggestion even drew stern comment from the International Monetary Fund's first deputy managing director Stanley Fischer. But the IMF this week is heard stridently echoing Malaysia's tune. The about-face is hardly surprising in the wake of the US's hedge fund, Long-Term Capital Management's fall from grace and its lightning US\$3.7 billion bailout. Dr Mahathir hit the nail on the head when he said that "they now realise the evil of currency trading and they are now talking about the need to have regulations. We have said it repeatedly but they criticised and ran us down. Now it hits them, only then they rethink."

IMF managing director Michel Camdessus, who had all this while vehemently defended the multilateral agency's unrealistic approach, is seen to have at long last come down to earth. In the face of mounting criticism against the IMF's excessively harsh policies on economies in crisis, he called for broad reform of the international monetary system, including the IMF itself. He admitted last week that the IMF had made mistakes and failed to "take notice of information on short-term capital transactions soon enough".

Given this month's backdrop of moves from the US, starting with the Federal Reserve Board's warning that the US cannot forever remain "an oasis of prosperity" in an expanding desert of turmoil and President Bill Clinton's call for long-term solutions to the financial crisis, the world community is undoubtedly watching just how serious the wealthy nations are in bringing about meaningful reform.

This week's Commonwealth Finance Ministers' meeting in Ottawa and the world monetary talks in Washington should afford the financial leaders, experts and economists the opportunities to dwell at length on this important issue of ensuring currency stability and containing the activities of currency speculators. Malaysia is not alone in voicing dissatisfaction with the excesses of globalisation which saw manipulative forces attacking currencies of growing economies causing tremendous hardship to Asians and other societies overnight. Aside from the developing world, France and Britain, which are members of G-7, have also been promoting such a change.

Ensuing from the LTCM debacle and the accusation that it is the US's fault for allowing hedge funds to operate too freely by relaxing regulations on how they raised money, the administration is now understandably anxious to arrest the fallout before it gets out of hand. After the hedge funds have wreaked havoc elsewhere in the world, impoverishing many communities, it is most appropriate that they are now getting a taste of their own "medicine".

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