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Promoting use of own currencies in intra-Asean trade

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"NO, there is nothing," Prime Minister Datuk Seri Dr Mahathir Mohamad said when asked by reporters in Bangkok three days ago whether something was up in his back-to-back visits of Asean countries in recent weeks.

But he pointed out that his visits were to persuade his counterparts to trade with other Asean countries using regional currencies.

Dr Mahathir, after deep understanding of the current economic problems plaguing several Asean countries, decided to visit several Asean states himself, in a bid to encourage intra-Asean trade by using regional currencies.

The Asean Informal Summit which ended in Kuala Lumpur on Dec 16 had agreed that trade in their respective currencies would help reduce the dependency on the US dollar.

Dr Mahathir took it upon himself to bring the clock forward and to ensure the decision was implemented as early as possible.

His pro-active actions proved to be fruitful.

Thailand, the Philippines and Malaysia will form the core group to begin trading in their respective currencies. Indonesia has also agreed to work towards such an arrangement.

"We will settle (the payment) in the currency of the country which is selling to us," Dr Mahathir said, adding that the move would enable Asean States to save foreign currencies for the purpose of buying from countries outside the region.

The Prime Minister said he saw no reason why foreign currencies had to be used for trade between Asean countries.

"If the trade is between Thailand and Malaysia, there is no reason why we should use the currency of a third country for settlement. If we have enough faith in our currencies, then we should use our currencies."

The world today is dominated by the US dollar which is used for 60 per cent of global commercial transactions and 80 per cent of financial markets.

Dependants on a single foreign currency would only expose the Asean countries to its volatility. Their economies will be affected by its fluctuation.

The dominance must, therefore, end.

The US domestic economy is highly protected against the effects in the external value of the dollar. American policy-makers are more concerned by the internal effects of their actions than the potential impact on the international monetary system.

The result is that the world economy is heavily exposed to the effects of the often significant and unpredictable movements in the value of the dollar.

As exchange rates among Asean countries had not changed much as they were all devalued by almost the same extent, they could continue to trade with each other and could even expand it with the use of regional currencies.

Goods from Asean countries would be cheaper to member countries.

Dr Mahathir also hoped that for the purpose of intra-regional trade, Asean would eventually have a common currency.

"Initially, we cannot have a single currency because we don't have an agreement on it. But we hope that eventually we might be able to have a common currency for the purpose of trade, somewhat like the euro," Dr

Mahathir said.

Although there are still scepticism about the effectiveness of the euro, the European Union has passed the point of no return for its introduction in the financial market on Jan 1, 1999.

Twenty billion notes in seven different denominations and 70 billion coins in eight denominations will be circulated in year 2002 for practical use at the people-to-people level.

Most of the 15 EU members are confident that the euro will have a huge impact on international monetary relations and will propel Europe into prosperity and financial stability in the next century.

Asean in particular needs stable currency regimes to liberalise trade and investments. As economic interdependence increased, so did the consequential spill-over of both positive and negative effects. The most rapidly transmitted and damaging of these was currency confidence problem.

Regional currencies have fallen by some 10 to 60 per cent against the US dollar since the baht's devaluation against the greenback on July 2.

Therefore, the idea of a single currency should be carefully examined as a long-term measure to improve financial stability in the region.

No doubt, there may be problems as the idea may border on the sovereignty of the Asean states, but the current financial problems in Asia which some analysts call "the Great Asian Bust" could well serve as a reason to examine its possibility.

Those outside the region are keenly watching the developments in Asean as the grouping makes an effort to overcome its problems and come out with long-term solutions.

An Asean solution is crucial as ultimately it will be Asean which determines its own future.

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