

04/11/1998

Regulate currency trading

WHEN Malaysia first called on the world community to regulate the manipulative and destructive currency traders, the scepticism and lukewarm response were palpable. A year on now, how changed world opinion is.

When Prime Minister Datuk Seri Dr Mahathir Mohamad took his campaign to yet another forum on Monday, the voices for the reining in of these destabilising market elements had undoubtedly gained momentum. While the Malaysian leader must have felt vindicated with the world increasingly recognising the evils of the attacks by these forces, he is clearly saddened that much havoc has been wrought on the economies of the world, impoverishing many.

It is heartening that Japan, the world's second largest economy with a major role in revitalising the global economy, concurred with Malaysia's long-held view that the Asian financial crisis occurred not because Asia had a problem. Tokyo said global capitalism with its movement of short-term capital flows based on a profit-oriented principle was the root of the problem. But Dr Mahathir, who calls a spade a spade, told the international conference in Kuala Lumpur this week in no uncertain terms that currency trading had been the cause of the present financial and economic turmoil. He said currency traders precipitated the current recession in every country. They were well on the way to bringing about a worldwide recession, he warned.

Given the perilous world economic situation, is the global community nearer to curbing these destructive forces and finding a solution to the global financial troubles? Not by a long shot judging by the pronouncements and actions emanating from the rich and powerful nations. While it is encouraging that the Group of Seven, which had for some time appeared divided and fragmented, has now pulled together a strategic plan, there is no clear will to control currency trading.

A report late last month said the US Federal Reserve gave its strongest indication yet that it would move to regulate hedge funds when it said it favoured indirect regulation. It maintains that regulating hedge funds directly is unlikely to work. But regulating them indirectly through a closer control of their counter-parties, such as the securities firms, banks and insurance companies, has a much higher likelihood of working.

But Japan, said a report this week, would propose to the G7 the creation of an international financial supervisory body to stop speculators disrupting markets. Malaysia, which has been spearheading the campaign, will no doubt make full use of the Asia-Pacific Economic Co-operation Summit in Kuala Lumpur later this month, to push for its objective. It has already given notice that it will place anti-speculation measures on the agenda.

It is evident that there is still resistance among major industrialised countries to curb hedge funds, probably because of vested interests. Given the recent near collapse of a major US hedge fund and the resultant massive bailout, it is hoped that the debacle will awaken American policy-makers to the risks of these large unregulated investment pools. Cosmetic adjustments, correcting peripheral causes and the like will not do any good at all. There is indeed no reason why the world cannot act in concert to regulate currency trading. The US has the policy levers and can respond. The question is: will it?

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