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The fall of the free market

FINALLY, Hong Kong, the world's free market bastion, has called for order in the international financial market. It took Asia's financial hub only a couple of weeks of relentless attacks by the currency speculators to admit that the free market in its current form is no longer tenable. In calling for a global plan to discipline financial markets and control the flow of funds, Financial Secretary Donald Tsang said the countries in Asia as well as the International Monetary Fund (IMF) must somehow reach a consensus on how to proceed with this proposal.

It is unfortunate that Hong Kong has realised the flaws in the global financial market only after it personally came under attack. When Thailand, followed by Malaysia, Indonesia, Singapore and South Korea were under siege last year, Hong Kong and many others were still worshipping the same market forces that later turned against them. When Prime Minister Datuk Seri Dr Mahathir Mohamad addressed the need for regulations and transparency in international currency trading at the annual meetings of the IMF and the World Bank in Hong Kong last year, Hong Kong was non-committal at best. It was - and still is - an economy with one of the biggest reserves, around US\$100 billion (US\$1 = RM3.80). It was proud of the fact that it was a total believer in the free market. It had transparency and it had governance, and as far as free marketeers were concerned, the problems facing the other East Asian countries then were brought upon themselves by their own failure to address weaknesses in their respective systems. Currency speculators were not to blame; corruption, nepotism and cronyism in governments were the culprits.

The Hong Kong Government has been intervening in its own markets for close to two weeks now, and it is quite clear that even with its US\$100 billion reserves, it is no match for speculators and hedge fund managers who can move trillions in US dollars if they need to. The mood in nearby Taiwan has been nervous, with US financier George Soros having been warned by Taipei not to even think about messing with its markets. But the fact remains that there is no stopping speculators unless, as Hong Kong has realised, there is a global plan to discipline them. The likes of Soros have come and gone, making tonnes of money every time they bet against currencies, be it pound sterling, lira, peso or yen. Even with its newly-introduced 30-point package aimed at tightening regulation and disclosure - mainly of short-selling - Hong Kong and everybody else knows that the speculators will still find a way to play their games. After all, Soros was instrumental in bringing down the ruble simply by writing an article in a London financial daily about what he thought of the Russian currency.

Hong Kong's call for a global plan to discipline speculators, nevertheless, should have the support of countries in the region. Malaysia would certainly want to discuss this further, especially since the proposal is not too different from what Dr Mahathir had been suggesting to Asia and the world for close to a year now. There is likely to be backing from Latin American countries, which now fear that the Russian crisis would have an impact on their economies. In Africa, some countries - especially those that peg their currencies to the South African rand - are by now familiar with the damage that currency trading in its current form can do. Perhaps Tsang would like to call for an international meeting to discuss his proposal, keeping in mind to invite these governments that have had some kind of experience with the problems Hong Kong is now

facing.

The most important player, though, would be the IMF itself, as regulator of today's international monetary system. The US will also be a key party in deciding whether there will or will not be a global plan to discipline the speculators. If Hong Kong finds that it cannot get these parties to participate, then a regional approach can be taken to try and help resolve the crisis. If, for some reason, even this is unattainable, then Hong Kong - like Malaysia - will have to fight alone.

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