

11/02/1998

Tokyo says Yes to use of yen in trade (HL)

Fauziah Ismail in Tokyo

TOKYO, Tues: In a major breakthrough for Asean's initiative to promote the use of regional currencies in trade, Japan has agreed that its trade with Malaysia and Singapore could be paid in yen.

Malaysia, which is spearheading the initiative, had last week won the support of the Philippines and Thailand to use local currencies for intra-Asean trade. Prime Minister Datuk Seri Dr Mahathir Mohamad, who visited his counterparts in the two countries, had said Malaysia would be talking to the other Asean members to further extend the arrangement.

Today, his deputy and Finance Minister Datuk Seri Anwar Ibrahim secured Japan's "firm commitment" for the use of the yen for settlements by its banking system of trade with Malaysia and Singapore.

Describing this as a "breakthrough" in efforts to revive the ailing economies of the region, Anwar said Japan's involvement augurs well for the Asean currency proposal.

Anwar secured the commitment during his meetings with Japanese Finance Minister Hikaru Matsunaga, Vice Minister for International Financial Affairs Eisuke Sakakibara, and Liberal Democratic Party secretary-general Koichi Kato.

The yen, Anwar said, has become an important international currency. "This is not a sentimental point... it is due to the strength of the Japanese economy."

"Some 70 per cent of our external trade is denominated in US dollars. I think it would be wise for us to continue using the US dollar but at the same time in the context of Japan, I don't see why we cannot use the yen," he told a press conference attended by some 100 Malaysian and foreign journalists at the Nippon Press Centre here.

Anwar said it is not a question of the yen replacing the greenback as the international trading currency.

"I don't think the yen should replace the dollar. I don't think Tokyo wants that too.

"But the option remains for the yen to play a more pronounced role in trade settlements not only for Malaysia and Singapore but also other countries in the region."

The Deputy Prime Minister also said he is optimistic various joint measures to revive the region's economies will produce results soon.

However, on the resistance encountered over the proposal by Japan and Asean to establish an Asian Monetary Fund, he regretted that "our dear friends in the US rejected it outright even when they need not have to make any contributions (to the proposed fund)."

The Asian Monetary Fund would have been a standby facility with equal contributions from participating countries. Therefore, the issue of Japanese dominance would not arise, or would the question of International Monetary Fund's (IMF) effectiveness being undermined, as it was envisaged to complement IMF's activities and abide by its conditionalities.

"We presented our case to (US Treasury Secretary Robert) Rubin but it was dropped far too quickly because Japan took the rejection too seriously. In the absence of other initiatives, we had said we should deliberate on it (the Asia Fund) further.

"But now, I am more optimistic as there are now complementary measures to those introduced by the IMF for the region," Anwar said.

Asked why Malaysia has not turned to the IMF for help, he said Malaysia

is not at a stage where it needs to be bailed out.

"When a country faces a problem serious enough, when it is technically insolvent and cannot service its foreign debt, that is when the IMF comes in.

"Malaysia is fortunate that we have not reached that stage. The IMF has also not suggested that we go to them... as long as we make the necessary adjustments to counter the contagion effects of what has happened in Thailand, Indonesia and South Korea," Anwar said.

"The measures that we have taken so far and the renewed confidence in the region have to a large extent eased the pressure.

"I am not suggesting to anyone to accept or reject IMF bailouts," he added.

While Malaysia values the IMF's efforts, contributions and cooperation, "its prescriptions are sometimes too tough... I believe they can be moderated somewhat," Anwar said.

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