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Veritable trade mechanism

IN face of the sharp depreciation of the region's currencies against the US dollar and other major units, any arrangement to settle export-import transactions on a net basis can be expected to offer substantial immediate respite for affected economies from crippling foreign exchange pressure. However, what is less recognised is that it can very well also develop into a veritable mechanism for regional trade enhancement. Any which way you look at the year-old economic crunch, trade is one of the key factors that will determine how fast the region gets back on its feet. And when resources are depleted and capacities slashed, like they have been over the past 12 months, it is economic efficiency - not least in ensuring greater and smoother flow of trade - that will have to take up the slack.

Prime Minister Datuk Seri Dr Mahathir Mohamad, in initiating and pushing for bilateral payments arrangements among Asean members when the impact of the crisis was only beginning to be felt, is surely among the very few who immediately recognised the full potential of such a mechanism, not only in terms of its instant benefits but also the obvious gains in regional economic dynamism that can be derived in the longer term. It is therefore significant news when on Thursday Dr Mahathir announced that the format for the bilateral trade settlement clearing house has been worked out by Bank Negara. He said the central bank will brief Malaysian trading companies on the mechanism soon.

The idea is based on the simple yet pertinent observation that substantial savings can be secured if Malaysia and its trading partners were to use their own currencies in trade instead of the US dollar in view of the aberrative appreciation of the latter. Even, Asian powerhouse Japan was enthusiastic when the concept was first broached and had actually committed itself to the use of the yen to settle trade with Malaysia, Singapore and possibly Thailand. Since then however Tokyo has been embroiled in its own problems and little is achieved on this front. Still, Philippines has signed an agreement with Malaysia to put in place such a mechanism, and Thailand is expected to follow soon. In addition, Vietnam has expressed keen interest in participating in the scheme. Never mind that the pact between Bank Negara and the Philippine Central Bank calls for the settlement of the bilateral trade balance in US dollars. It remains a major breakthrough for Malaysia, and the region, in that by having only to settle the net amount, immediate savings are secured in terms of the need to maintain a smaller stash of foreign exchange to finance trading activities. More importantly, with the mechanism in place, switching the payments mode at a later date, from one currency to another or even to multiple currencies, should not be too much of an issue.

Dr Mahathir, in explaining to local chief executive officers the rationale and benefits of using own currencies among the trading partners, had noted that instead of sticking to the current practice and continuing to be dependent on the US currency, traders should consider alternative ways of doing business, including counter-trading. Indeed, the bilateral payments arrangement also represents a ready-made and sophisticated vehicle to undertake such activities, with even less exchange of cash involved. Considering that 85 per cent of intra-Asean trade, which stood at US\$127 billion (US\$1 = RM4.14) last year, was conducted in US dollars, imagine the savings for the region when more countries, and there will surely be, adopt the arrangement. While its current attraction is as a

buffer against the effects of fluctuations in the greenback, it is not inconcievable that from the initiative there will evolve a region-wide clearing house, one which eventually becomes the centrepiece of the most dynamic regional trading system in the world.

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