

20/07/1998

Vigilante traders agents of creative destruction

Hardev Kaur in Harvard

HARVARD: "Like the vandals who conquered decadent Rome, the currency traders sweep away economic empires ... traders are the agents of creative destruction".

One cannot be blamed for assuming that this statement refers to the current economic situation in East Asia as there has certainly been a lot of "creative destruction" in the region in the last 12 months.

But no, it was written in 1994 by Gregory J. Millman before the Asian currency crisis and when the Asian economies were booming. But he could be describing the currency crisis, outcome and causes of the Asian currency crisis today.

Countries in the region have had their share of "creative destruction" with millions of people in Indonesia, Thailand, South Korea and Malaysia losing their jobs. Many do not have enough to feed their families and others are dying due to the lack of medical facilities as these facilities have been rendered inaccessible or simply unaffordable.

The basic human rights of individuals in these countries have been undermined and violated by the activities of currency traders.

The future of many has been further jeopardised as they have had to abandon their education and some were even recalled from abroad in the midst of their courses as their governments, sponsors or parents could not bear the extra financial burden imposed on them due to the depreciating local currencies.

In addition, the corporate sector has been left vulnerable and the stock markets in the region have lost much of their gains. The economic and social gains made in the region in the last decade have been wiped out by the currency traders.

The "vigilante traders" move trillion of US dollars in minutes with no regard for the welfare of millions of people whose lives are affected. Their only motive according to Millman is "profit".

In his book entitled *The Vandals' Crown*, Millman says traders: "Like the bounty hunters of the Old West ... enforce the economic law, not for love of law, but for profit. They have only one goal - making money.

"Like masterless samurai in an unceasing struggle to capture even greater wealth, the traders battle constantly - among themselves and against any vulnerable government authority. The battlefield is the international capital markets, their weapon is money and their fighting styles are as diverse as the Asian martial arts."

Currency traders move trillions of US dollars around the world at the "speed of light". Their job is made easier with the advent of computers and modern communications and technology. "Money can be made and lost around the clock", their marketplace is borderless and there is no physical place for trade.

"Add up all of the Saudi oil, Japanese cars, American wheat and European aircraft and throw in the rest of the things that countries buy and sell from each other, and you will get only a small fraction of the (US)\$1 trillion (US\$1 = RM4.10)," writes Millman. Nothing new. Prime Minister Datuk Seri Dr Mahathir Mohamad has said this often enough.

But as has been pointed out on several occasions, currency traders have a free run of the whole world, leaving havoc and destruction in their wake as they are not subject to any of the trading rules governing physical goods.

The democratically elected governments in "target" countries are left helpless. There is nothing they can do, or are allowed to do, to protect their citizens or the gains made over decades. They cannot even protect their own national currencies nor progress with their plans.

Millman, referring to efforts of the Europeans to set up the Common Monetary Policy in the 1980s, which he says was dealt a death knell by currency traders who "didn't care about the dream ... and demolished the European monetary system." Something that the Europeans had worked on and dreamed for years.

Dr Mahathir has said much the same but unfortunately many choose to ridicule him, his analysis and statements, including some Malaysians. Truth hurts and especially when it is articulated by the leader of a developing country. Yet when the same message is articulated and conveyed by those in the west and those from the developed countries it is taken as gospel truth.

Most of what Millman writes has been articulated by Dr Mahathir in the wake of the currency crisis in East Asia. But he has been ridiculed for taking currency speculators to task for the havoc that they have created and the destruction they have left behind.

Yet Millman says that the former US Federal Reserve Board Chairman Paul Volcker decries the role of "vigilante (traders) economics as chaotic, disruptive, and serving to enrich an already rich elite."

The "financial vigilantes" according to Millman "sell protection at a price. And what a price. George Soros made US\$1 billion in a few days in 1992 by helping to push Great Britain out of the European Monetary System". Was he not a menace to the British Government for having caused massive losses to the Bank of England and destabilising the European monetary system?

The same George Soros who was named by Dr Mahathir for speculating and causing havoc in the currency markets is now reportedly an advisor to the South Korean Government. How much were his gains from the Asian crisis?

Soros has also come around to argue the need for regulations of currency trading. So why is it that when those from developed countries make the call it is seen as revolutionary thinking while those from developing countries say the same thing they are ridiculed?

It is time those from developing countries, including Malaysians, have more faith in themselves. It may be fashionable and easier to ape the west and believe that everything that comes from the developed west is good, but it may not necessarily be so. There is much wisdom, expertise and experience in the developing east as well.

(END)