03/06/1998

# Basis for working towards better system

A SYSTEM is needed to check the excessive fluctuations of currencies in the world's financial markets but it should not be one that imposes restrictions on currencies in which trade can take place, International Monetary Fund deputy managing director Stanley Fischer said yesterday.

"It is clear that we can hope to have a better system and should work towards one but it should not be one that seeks to go back to pre-World War arrangements of bilateral balance of trade and other ideas," he said on a point made by Prime Minister Datuk Seri Dr Mahathir Mohamad in his keynote address at the symposium on The Revitalisation of the Japanese Economy and the Future of Asia.

Dr Mahathir in his speech, described by participants as "forceful, clear and encouraging", had suggested a reform in the international financial system which he said was "messy, unreliable and destructive".

Dr Mahathir said interference of currency traders had caused currency instability and that the only way Malaysia could overcome this instability (in the exchange rate) and to rebuild the economy was to revert to bartering.

On globalisation which Dr Mahathir said would really benefit the rich, Fischer said the East Asian region had, more than any other, benefited from the opening of the world economy over the last 10 years.

"It is true that the gains and income of these countries, in particular China, were historically unprecedented and were a remarkable achievement.

"Without opening of the world markets after the second World War, it would not have happened. We should under no circumstances ignore that fact or imagine that there would be a solution which will benefit countries in this region or countries anywhere that seeks to withdraw from a globalised system."

He made these remarks before starting on his address at the symposium.

In his speech, Fischer said the Asian economic problem had been all the more shocking for having struck countries with a sustained record of outstanding economic performance.

Nonetheless, he said, at the beginning of their IMF-supported programmes, Thailand, Korea and Indonesia faced a number of similar problems, including market confidence, deep currency depreciation, weak financial system and excessive unhedged foreign borrowing by the domestic private sector.

He defended criticism on "IMF austerity medicine" being inappropriately dispensed to countries sufferring from a different disease and the damage measures to restructure the financial system and improve corporate governance.

He said when South Korea and Thailand approached the IMF, their reserves were "periliously low" and the Indonesian rupiah was excessively depreciated. "Thus the first order of business was to restore confidence in the currency."

He said to achieve this, countries had to make it more attractive to hold domestic currency, which in turn required increasing interest rates temporarily even if higher interest costs complicated the situation of weak banks and corporations.

He said once confidence was restored, interest rates could return to more normal levels which was now happening in South Korea and Thailand.

(END)