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Another crisis on the way?

IT SHOULD not come as a shock to governments in this region that one of their currencies is under attack by the hedge funds again. They have been warned many times in the course of the last two years that currency attacks, which plunged the region into its worst financial and economic crises in years, could recur so long as the activities of these brutal speculators was not curbed. And the attack on the baht by a US-based hedge fund this week, which brought the Thai currency down to almost a year's low, could just be the start of an attempt to bring back economic chaos to the countries which have hardly recovered from the present crisis.

Other currency speculators will be encouraged by the activities of the US-based hedge fund, and if they decide to turn this into an orgy, most countries in this region will be extremely vulnerable. The International Monetary Fund's (IMF) bail-out package for Thailand, Indonesia and South Korea will not protect them from further currency attacks and that is partly because the IMF has refused to buy the theory that the currency attacks were responsible for the 1997 crisis. Bangkok has reacted to the latest attack on the baht in the most gallant manner, with Finance Minister Tarrin Nimmanahaeminda declaring that the Government will not intervene to support the baht. But Thailand's central bank, according to news reports, has called for an urgent meeting of its committee on monetary policy to map out counter measures.

Malaysia, which put in place currency exchange rate controls last year instead of subscribing to the IMF's prescriptions to other crisis-hit countries, will not be exposed to the dangers of currency attacks. Even if all the hedge funds in the developed world decided to run amok and attack the Singapore and Hong Kong dollars, rupiah, peso, or won, the ringgit will remain safe. However, if the impact of the attacks on the currencies is going to be anything like the 1997 attacks, which started with the effective devaluation of the baht in July that year, the Malaysian economy will take some hard knocks as well. Malaysia will definitely fare better than other countries in the region which have no similar contingency plans in place against the currency attacks, and its stock market and foreign exchange market are not going to experience the kind of chaos that will befall other markets. Still, Malaysia's own economy is very dependent on the well-being of its neighbours.

The call made by the Special Adviser to the Japanese Finance Minister, Dr Eisuke Sakakibara, that currency trading should be regulated is, therefore, very timely. He made the call at an international symposium on currency controls in Kuala Lumpur on Thursday, probably even as other hedge funds were considering whether to join the attack on the baht. At the same symposium attended by Sakakibara, Prime Minister Datuk Seri Dr Mahathir Mohamad once again called for a ban on currency trading, saying that the free market can still exist without such trading. The Prime Minister, who was the first to blame the currency speculators for the present regional crisis, said for a long time there was no currency trading in this world but that never came in the way of growth in international trade.

Whether or not currency trading is regulated or banned depends on the ability of the industrialised countries to sympathise with the damage it has inflicted on developing and emerging economies. The IMF, as the Asian crisis has proved, is unsympathetic. Japan may have to take the lead in