

24/05/1999

`Transparency needed in currency trading'

Kasmiah Mustapha

THE call to regulate currency trading, largely to check rampaging speculators, was first voiced by Prime Minister Datuk Seri Dr Mahathir at the height of the economic crisis almost two years ago.

At that time, many were sceptical about the need to put in place a mechanism to control an activity which has been free from any form of control for as long as one can remember.

But the time and circumstances have changed. With unchecked flows of the unlimited amount of money that is being traded, the financial standing of a country is left in the hands of these speculators.

Institute of Strategic and International Studies (Isis) deputy director-general (economics) Dr Zainal Aznam Yusof said any move to improve the global financial system has to begin with more transparency in foreign exchange trading.

This includes transparency on the part of currency traders, hedge fund managers as well as banks dealing with currency trading, he added.

"These are the people who move short-term capital. They are the ones who are involved in moving money in and out of a country.

"You need to know who they are, where are they, how much they trade and where they send the money to. This is what we call transparency in currency trading," he added.

However, Zainal Aznam admitted that, "it will be difficult to track the players especially with most of them being based in offshore banks or even working with private corporations.

"Now is the time to think of a new law or system on how to make them more accountable in their activities. We need to include these people in any approach to reform the financial system.

"The consensus about these people is that they are not totally regulated and that there are no limits to what they can do," he said in an interview recently.

Zainal Aznam, who is also a member of the National Economic Action Council working group, said another move to regulate currency trading was to control the amount of leverage that is allowed for one transaction.

"For example, they have US\$20 billion in their funds but they are allowed to borrow up to 10 times of that amount to trade. This is what we have to curb, the amount that they can borrow so that we can limit the amount of leverage."

He pointed out that the amount of forex transactions per day is between US\$1.3 trillion and US\$1.5 trillion.

He said banks should also play a bigger role to curb excessive currency trading because transactions which are unregulated will generate further volatility during a financial crisis.

Malaysia's move to impose the selective capital controls was part of the effort to curb currency speculators.

"In my view, we should continue with the present system of selective capital controls. We should continue with the peg system for a while."

"If the region's economic growth is back on the previous path and if the world financial system improves then I think we can re-examine the selective capital controls and the peg."

A forex trader with a local bank said the selective capital controls and pegging of the ringgit were the safest way to regulate currency trading.

"It is no different from what China and, to some extent, South Korea and

Taiwan are doing. It is good protection for our currency," he added.

He said developed economies, such as the US, supported the free flow of currency as they can control the market for their own purposes.

"It is easy for people with strong financial backing to manipulate and corner the market for their own purposes and advantages.

"But if there is no control on the currency movement, small economies like ours will get killed.

"Maybe what we need is a target zone for currency trading. It will keep trading within a certain zone and only allow transactions to move within this zone. If it moves anywhere beyond that, then the central banks would intervene."

Obviously, the idea to regulate currency trading will be met with resistance and difficulties. There would also be positive and negative factors that have to be looked into.

But something has to be done as soon as possible.

(END)