

18 OCT 2000
ASEM-IFA
FINANCIAL REFORM TO BE AGENDA AT ASEM

By: E. Sivabalan

SEOUL, Oct 18 (Bernama) -- Malaysia, keen for a reform of destructive hedge funds in global finance, may have its day after all at the third Asia-Europe Meeting (Asem) beginning here Friday.

This is because one of the nine major recommendations to be forwarded at the Asem summit would be the reform of the international financial architecture (IFA), which it has unrelently been pushing for since the 1997 financial crisis.

In 1997, unbridled hedging activity led to speculators mercilessly attacking regional currencies starting with the Thai Baht in July and which precipitated an Asian meltdown, the likes of which were unprecedented.

Regional economies crashed, forcing economies like Indonesia, Thailand and South Korea to plead for billions of dollars in bail-out money from the International Monetary Fund (IMF), but Malaysia funded its own recovery.

Since then, Malaysia has been propogating for reforms to the IFA to control speculative hedge funds at numerous fora, but has met with much criticism and opposition although many recognise these funds as being destructive.

The recommendations for a reform of the IFA under the Asia-Europe Vision Group Report was contained in a document entitled "Outline of Asem III" released by the Office of the third Asem here today.

In an immediate reaction, Malaysian officials said the recommendation on the reform of the IFA signalled the willingness of the European nations to see the urgent need for reform from the perspective of developing nations.

"This is good because it is being brought up at the right place and at the right time," said one Malaysian diplomat, while admitting that the matter was only initially discussed at the 1998 London Asem.

It is the right place because Britain, France, Germany, Italy and Japan, which are member states of the Group of Eight (G8) industrialised nations, are also members of Asem.

And it is the right time because most of the Asian countries affected by the currency turmoil have recovered or are on their way to recovery and also since both the International Monetary Fund (IMF) and the World Bank have admitted that it was about time the IFA was reformed.

Prime Minister Datuk Seri Dr Mahathir Mohamad, who is scheduled to arrive here later tomorrow to attend the two-day Asem, has been calling for a reform of the IFA, saying Asian currencies and equity markets would otherwise continue to be vulnerable and be at the mercy of attacks by hedge funds.

When Malaysia and several other Asian nations were hit by the financial crisis in mid-1997 following the devaluation of their currencies through unscrupulous speculative activity, there was little they could do to stop rogue currency traders.

Realising the harm IMF recovery measures had on some Asian nations, Malaysia imposed capital controls on Sept 1, 1998 including pegging the ringgit at RM3.80 to the US dollar and imposing an exit levy on portfolio funds in efforts to insulate the economy.

Though described as unorthodox and drastic, the measures paid off with the Malaysian economy now having recovered from negative growth at end-1998 to an astounding 8.8 percent in the second quarter of this year.

The other major recommendations include "eventual goal of free trade in

goods and services by 2025," closer macroeconomic policy coordination, establishment of Asia-Europe Business Advisory Councils and setting up of the Asem Information Technology Council.

The Asem process, which is based on informality, brings together 26 countries -- 16 from the European Union and 10 from Asia -- to strengthen relations between the two continents to reflect the importance of Asia on the world stage and to move towards more balanced relations built on equal partnership.

The Asem summit in Seoul comes after the inaugural summit in Bangkok in 1996 and a second meeting in London two years ago.

The fourth summit would be held in Denmark in 2002. -- BERNAMA

ES MR