

■ Currency switch: Protection for producers

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MANUFACTURERS and exporters should be prepared to accept payments in euro, although economists say a widespread switch from the US dollar to euro for trade settlements remains far in the horizon.

Although the European currency now enjoys better exchange value than the weak-

ened greenback, economists say any switch to the euro from the dollar would depend on whether partners in trade agree to the change.

The economists also do not expect Malaysia to abandon the dollar entirely as the ringgit value is still pegged to the greenback.

Prime Minister Datuk Seri Dr Mahathir Mohamad recently called on traders and nations to

diversify into using the euro instead of depending solely on the dollar for international trade settlements, particularly in oil and gas.

He said that it would protect oil producers from volatility of the US currency.

Several Asean (Association of South-East Asian Nations) business leaders and corporations have voiced support for the call, including Indonesia's state oil

company Pertamina which said it was considering switching to the euro.

MIDF Sisma Securities economist Azrul Azwar Ahmad Tajudin said Malaysia can dictate the currency for settlements in areas where it enjoys monopoly as a producer, including oil and gas, crude palm oil and rubber.

However the success of any switch would still depend on the

from greenback's volatility

euro in trade'

willingness of its trade partners to accept the euro.

"It may not make much sense to settle trade payments in euro if the US and other trading partners do not accept euro as the medium of exchange," said Azrul Azwar.

The first-quarter statistics indicate that the US is still Malaysia's largest trading partner with 16.1 per cent of total bilateral trade as compared to

the 12.6 per cent trade with the European Union.

Another economist said central banks worldwide are still holding more US dollars than euros as reserves although they are slowly increasing the share of their euro portfolio.

Although a complete shift to the euro is seen as uncompetitive currently, economists said that increased intra-Asian trade will help open windows of op-

portunities in reducing the reliance on the greenback as Asian countries can opt to settle payment in the currency of one of the countries involved in the dealings.

While the greenback has facilitated trade over the last few decades, it has been made volatile by the lacklustre US economy and political priorities against the current backdrop of a strong euro.