HOW TO STOP FUTURE CURRENCY CRISIS

by VŨ NGỌC NHUNG

Two years before the Thailand's currency crisis, the Mexican peso collapsed. However, the Mexican lessons haven't been learned, so the overvaluation of local currency still spread to many developing nations. As a result, the Thailand's currency turmoil has affected many region countries. Seeing huge losses in those countries and great aid package from international financial institutions worth US$103 billion, no one can help assuming had the International Monetary Fund (IMF) foreseen and hedged these risks, losses might have been reduced. In 1996, when meeting Mr. Michael Bell, a permanent representative of IMF in Vietnam at that time, I asked why IMF had not forecast the Mexican currency crisis in early 1995. My question aimed at drawing lessons from this event to forecast and apply to the country's exchange rate. Perhaps IMF recognized its very important role in stabilizing the world's currencies, so it warned the Thailand's government that fluctuations in exchange rate of baht to U.S. dollars might occur due to the overvalued baht. Regrettably, the Thai Prime Minister had not listened to the IMF's warning because he was affected by the economic school of "no intervention".

Our country has understood the danger of local currency overvalued, and took the initiative to avoid the financial meltdown from October 1996, so it escaped from the two attacks of currency speculators in May and July, but it still had to encounter the recent currency storm. This is inevitability of the law "every thing has relations with each other" and shows the recent currency crisis is an international event impacting, more or less, every nation. The second proof of this influence is the world's stock markets faced Black Monday, Black Thursday with American Dow Jones down by 554.26 points or 15%, and indexes of Hong Kong 10%, Germany 13%, the U.K. 9%, France 7%, Japan 4.26%, Taiwan 4%, South Korea 3.3%...The whole situation affirms the IMF's role in both sides of urgent aid and forecast to hedge future risks.

The world's economic crisis has not taken shape since 1933 because Keynes's theory rediscovered the role of currency. In addition, the regulations have been strictly made to prevent speculation in the stock market with the aim to manage and spread risks in the banking system, carry out insurance for deposits, and put an end to banking chaos which usually spark off an economic crisis. Just because of this, we should discuss how to prevent future currency crisis.

When analyzing currency crisis, we will see there occur hands of currency speculators. They have been armed with the "boom/bust" theory as a ground for their speculation presented in American billionaire Soros's book. They guess where and what financial bubbles are going to burst. In 1992 Soros sold an amount of sterling worth US$10 billion in a day and the following day the U.K. was ruined by a foreign exchange crisis. His intrigue, both admired and astonishing, broke the backbone of sterling. How could the Soros's investment fund sell an amount of sterling worth US$10 billion while until 1997 its capital could reach US$7 billion? Soros has speculated in currency by a financial instrument like a strong lever: exchange futures. The speculative point of a future is it costs only 1% but a futures trader can have effects on 100% of the

amount written on it. So if the future produces a three percent profit, then the trader may enjoy a three hundred percent profit because the future costs only 1%. The other side of these futures is with US$100 million, the speculator, talented but malevolent, has influenced an amount of sterling worth US$10 billion and dropped a financial bomb to devastate the U.K.

These futures can permit the short sale of US$1 million even when the seller possesses only US$10,000 and enjoy a big gain when the price of US dollar rockets as expected because most of futures do not implement the price written on them and they lead to only loss or gain due to exchange fluctuation. These futures also appear on the stock market under the name of financial instruments allowing gamblers to speculate by selling shares and bonds they do not possess and enjoy big profits or suffer big losses when the price of stock goes up or down. This is really a paradise for speculators and a hell for people and countries which must sacrifice before this savage financial weapon.

In September the Malaysian Prime Minister wrote an article on the *Wall Street Journal* entitled "We Don't Need Manipulators". Prime Minister Mahathir also condemned in a straightforward and angry manner that Mr. Soros was a currency speculator who triggered the devaluation of a series of ASEAN's currencies and he thought trading in currency was unnecessary, not productive and unethical. Mr. Soros reacted and said Mr. Mahathir's prohibition of short sale of stocks on the market has caused a fall of 40% on this market.

Certainly the short sale of foreign currencies and stocks is very dangerous because it is accepted by many countries' laws. Mr. Robert Rubin, American Secretary of Treasury has taken sides with Soros when he said speculation was a part of the whole activities of the secondary market and speculators made the money market wider, more flexible and reduce commercial costs. Short selling bewitches gamblers and delights them in speculative adventures which may lead to mammoth gain or loss (Soros has recently suffered a loss of US$2 billion on Black Monday and Black Thursday on most of stock markets). It looks like narcotics sticking to the capital market including currency and stock markets, so when Prime Minister Mahathir banned it in the currency and financial crisis, it caused bouts of addiction and a drop of 40% to these markets. And two days later, Mr Mahathir had to cancel his forbidding.

The currency storm did not lash our country in May and July 1997 partly because speculation is banned by the Article 165 of the Criminal Code: "Those abusing shortage or creating false shortage of commodities to speculate in goods for unfair sales shall be sentenced to 6 months' to 5 years' imprisonment". Just because of this, speculators feel frightened and cannot allure depositors' withdrawal for amateurish speculation in US dollars. Meanwhile, in the countries suffering financial meltdown, both sides of this financial instrument are acknowledged and only manipulators prohibited. This is hard to understand because speculation is a subtle trick to manipulate the market for profits. Selling an amount of sterling worth US$10 billion only in a day certainly causes false demand, makes supply bigger than demand and devaluates sterling, so how can they prove it is only speculation and no manipulation. Vietnam's draft Law on the Securities Exchange also bans short sale of stocks. If short sale of foreign currencies and stocks via futures is banned, we are capable of preventing speculation in currency in our country and restrict the influence of currency crisis of regional countries. The Government should officially propose the IMF to analyze speculation in the capital market (including the money market) with the aim to issue an international law banning speculation via selling short. We cannot talk to speculators about business ethics because Soros said when speculators do their business on the financial market, they don't care about ethical issues. We have to apply anti-speculation regulations to them. Our Government should also pose this problem before ASEAN countries because through their grievous pains of currency crisis, all of them will not want to entrust their economic safety to international savage speculators' like Soros. Consequently, if such speculation is banned, future currency crisis will be stopped■