

George Soros, Troublemaker or Rescuer?

By Sakamoto Sakae

The Asian currency and stock market crisis triggered by the depreciation of the Thai baht in early July has overshadowed regional economic prospects, notably those of Southeast Asian countries. The much-envied "miracle" economies have suddenly found themselves labelled "the trouble zone," and Asian leaders have quickly turned to blame George Soros of the speculative group Hedge Fund for the crisis. They claim Soros' speculative selling of the Thai, Malaysian, Philippine and Indonesian currencies was responsible for their depreciation, and thus jeopardized the financial systems and the economies of those nations.

In mid-August, the Japanese Ministry of Finance worked actively with the International Monetary Fund (IMF) to arrange a \$16 billion rescue package for Thailand. (IMF and the Export-Import Bank of Japan put up \$4 billion each. The remainder came from such institutions as the World Bank and the Asian Development Bank.) This recent event recalls a similar currency bust that occurred in Mexico between late 1994 and early the following year. The United States, guardian of the North American Free Trade Agreement, led a bail-out operation at that time. With the recent woes of another "emerging economy," it was Japan this time that rushed to the rescue.

Soros is blamed for jolting Southeast Asia, and consequently increasing the workload of Japanese ministry officials. However, the very same person helped them indirectly two years ago when Japan was trying to curb the yen's strength. Allegedly exercising a dual capacity as a troublemaker and a rescuer, few doubt Soros' power in the international financial market.

The scapegoat of ASEAN

Mahathir Mohamad, the prime minister of Malaysia, has spearheaded the attack against Soros. "There is a move to weaken the Southeast Asian economy by destabilizing our currencies," he told a

foreign ministerial forum of the Association of Southeast Asian Nations (ASEAN) in Kuala Lumpur late July. "Our economic fundamentals are robust, but the speculators are attempting to destroy the results of our development."

Mahathir went as far as to hint that the Clinton administration was behind Soros. "Soros attempted to exercise his financial influence (based on U.S. wishes) to block Myanmar's plan to join ASEAN," he said on another occasion.

The Malaysian prime minister appears to be trying to divert attention from ASEAN's economic woes by putting the blame for the crisis on Soros, the symbol of speculation, and by attaching a political motive to his actions. However, many pundits dismiss Mahathir's assertions as an attempt to make a scapegoat out of Soros in order for ASEAN to evade its responsibilities.

"Hedge Fund merely gains profit by heavily selling the currency of a country whose policies do not reflect the economy until financial authorities give in (or depreciate the currency)," an international financial expert said. "The problem does not lie with the speculators. It lies in the fact that the actual economic situation was quite different from that on which the authorities based their macro-economic and financial policies," he added, referring to the Thai policy of maintaining high interest rates to attract foreign investment. Bangkok also used to peg the baht to the U.S. dollar at a high level despite a ballooning trade deficit and domestic financial instability.

"Even if Hedge Fund's speculative activities result in the serious disturbance



Shaking the market: George Soros played a symbolic role in the Thai baht crisis in July

of the country's politics and economy, the responsibility lies with its government, which either was not aware of the disparity or was aware but did not act in response."

Allegations of U.S. conspiracy: unlikely

Mahathir's campaign appears to be directed not only at Soros, but also at U.S. pressure to liberalize financial markets in ASEAN. "The industrialized nations are demanding that we liberalize trade and services, but for whom? For rogue speculators," he said at the ASEAN foreign ministerial meeting.

It seems Mahathir is exploiting Soros' "immoral activities" to resist the

U.S. demand for an open economic system. His comments have clearly upset the U.S. Department of the Treasury, the passionate advocate of global financial reform or, as some say, of internationalization of U.S. standards.

In mid-August, U.S. Deputy Secretary of the Treasury Laurence Summers argued that emerging economies should not stop financial deregulation for fear of foreign speculators because the Thai crisis was caused solely by unsuitable economic policies. The department fears that the Mahathir campaign may gain momentum globally and provide an excuse for a slowing-down of reforms by some nations.

Nevertheless, there are some supporters of Mahathir's case that Washington (some say the intelligence community) used Hedge Fund to punish ASEAN for promising membership to Myanmar which has a poor human rights record. However, judging from Summers'

grievances, such a notion seems unrealistic.

The collaborator in correcting the Yen's rise

It is rumored that Soros can even affect the rise and fall of the Japanese yen.

Rumor One: In mid-1995, Sakakibara Eisuke, director-general of the Japanese Ministry of Finance's International Finance Bureau at the time, sought Soros' help to push the yen lower by suggesting that he buy dollars if he wanted to make an instant profit. The ministry urgently needed to correct the yen's excessive rise at the time to avoid further deflation.

Rumor Two: In May 1997, Sakakibara (now vice-finance minister for international affairs) told the Japanese parliament that the yen could rise up to ¥103 to the dollar, from its level at the time of ¥124, and helped spur its rise. Some analysts say Sakakibara had leaked his

comment to Soros beforehand and that this resulted in huge profits for him. The ministry wanted to check the yen's further slide at the time amid growing U.S. concern about the cheap yen.

Sakakibara denies these rumors, but admits frequently meeting with market players including Hedge Fund to exchange information and to provide the ministry's views on market trends. Apparently he has not "leaked insider information to" nor "sought the help of" Soros, but has sought his cooperation regarding ministry policies on the future direction of the yen. Most analysts believe Soros took the ministry's hint and acted as its arm in leading the market, although there has been no tangible confirmation of this. ■

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Photo: Kyodo News Service

Politics seeks a scapegoat: Malaysian Prime Minister Mahathir Mohamed severely criticized the Hedge Fund