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Dr M: Not a conspiracy but the effects are devastating

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KUALA LUMPUR, Mon. - Prime Minister Datuk Seri Dr Mahathir Mohamad said today the currency problems of the developing countries of East Asia were not the result of a conspiracy to dominate their economies. However, he said, the problems had provided an opportunity to force open the region's economies and the possible domination by strong and powerful nations.

Dr Mahathir said this at the simultaneous opening of Asean Finance Ministers, Asean Plus 6 meeting and the conference on financial initiatives for the 21st Century, at the Putra World Trade Centre.

In a speech that traced the workings of currency traders, their financial might, attacks on currencies since July, how the World Trade Organisation could be brought into the picture, and the miseries such attacks caused, Dr Mahathir said:

"Much has been made about the eventual recovery of these countries but even if they do recover they would have lost a lot of their wealth and the fruits of their labour.

"In addition, they may have lost their economic sovereignty as well," Dr Mahathir said.

Deputy Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim and International Monetary Fund managing-director Michel Camdessus, and Finance Ministers of countries participating in the two-day meeting were among those present.

Dr Mahathir put forward his argument why currency trading should be under the purview of WTO.

He said: "International trade is being regulated by principles, policies and regulation agreed to in the WTO. Why should currency trading be exempted from the purview of the WTO?

"Why can't the WTO discuss and formulate rules and regulation for international currency trading, rules which the rich and poor alike have a hand in drawing up, rules which are fair and just and designed to create wealth and prosperity for all?"

The Prime Minister spoke of how traders publish and circulate analysis of the financial futures of every country, and through constant releases of unfavourable news and rumours about the markets they could create grounds for devaluation.

This becomes self-fulfilling in the absence of information to prove otherwise. "From then on the so-called herd instinct among them takes over."

He added that while the only way for a currency under attack to recover was by having central banks sell the US dollar, the currency traders reportedly have funds amounting to US\$180 billion (RM630 billion), and were able to leverage their funds by more than 20 times.

"No central bank, no developing country, can match this. And the currency traders work in concert," he added.

The Prime Minister said that clearly the devaluation of the currencies could be easily manipulated by the traders, who never did invest or hold the currencies which they asserted would depreciate.

"All they did was to borrow the currency from the banks, sell and resell it repeatedly and took their profits from the difference in the initial high price that they sold and lower price money that they delivered.

"It is a classic case of short-selling, only the movements were caused deliberately by them and not by anything that the Governments did or any

weaknesses of the fundamentals."

That the stock markets have also been depressed as a result of the attack on currencies has come as a bonus.

This spawned more problems.

"The reaction of central banks to attacks is to raise interest rates. A rise in interest rates stifles the trading in shares. The share prices go down and through short-selling the currency traders make more money. Sometimes they were able to lend the money they had borrowed initially at the higher rates when the central banks increase interest rates. More money was made."

Dr Mahathir dissected the argument on "competitiveness" of a country affected by speculative attacks vis-a-vis its neighbours and trading partners.

"A favourite gambit is contagion. Thus because of the devaluation of the South East Asian currencies, these countries were said to be more competitive than Hong Kong, Taiwan and Korea.

"Their currencies must therefore fall in value in order to regain competitiveness. The traders then declare that they have lost confidence in these countries and loudly reveal their desire to pull out and sell their investments there.

"Through the same process of borrowing and selling these currencies repeatedly they were able to say that their prediction was correct. The currencies have indeed devalued and the stock-market nosedived as well."

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