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Forex trading needs rules too, says PM (HL)

Kamarul Yunus in Santiago

SANTIAGO, Mon: Prime Minister Datuk Seri Dr Mahathir Mohamad said trading of currencies must be transparent and governed by rules and regulations, just as commodity and stock trading is transparent and regulated.

"Most importantly, it needs a proper market of its own," he told a news conference here today.

He said the existing system under which currencies are traded are "vague and opaque" in nature and is susceptible to abuses that could ultimately undermine economies.

"If you want to trade in shares, there is a share market. If you want to trade in commodities, there is a commodity market. But when you trade in currencies there is no specific market.

"You don't even know where they are trading, how (the currencies) are being traded, how much money is being traded and who are involved," Dr Mahathir said.

Since July, the South-East Asian foreign exchange crisis has resulted in currencies of countries like Malaysia experiencing de facto devaluations at the hands of "manipulators".

The ringgit has depreciated some 20 per cent against the US dollar and this has undone the efforts of Malaysia of the last 15 years. Its per capita income has dropped to US\$3,600 from US\$5,000 during the three-month period.

"We need to have an open trading system, a proper market place, proper rules, regulations and laws. (We need to) register the traders, disclose the amount of money that they have (before they are allowed to trade).

"That way there will be no manipulation," Dr Mahathir said in response to questions from foreign journalists on his views of how the recent currency crisis affecting the region's economies could be prevented from recurring.

Dr Mahathir, who arrived here on Sunday, had said in Hong Kong a weekend earlier that currency trading should be limited to trade financing.

To another question, he said while an open financial system was desirable, it could not be totally open.

"There must be safeguards against abuses, or rogue traders keen on manipulating currencies for profit would not be too far away.

"If we lack control, we may allow rogues to rob you... in any business you keep out the crooks," he added.

Asked whether the attacks on the ringgit and the local stock market were as a result of inherent weakness in the economy, Dr Mahathir reminded the press conference that even the president of the International Monetary Fund (IMF), Mr Michel Camdessus, had expressed confidence in Malaysia's fundamentals and its management of the economy.

In his speech in June in California, Camdessus praised Malaysia as an example of a country where the authorities were well aware of the challenges of high growth as well as the need to maintain a sound financial system amid substantial capital flows into the country and a booming capital market.

Despite Camdessus' endorsement, Dr Mahathir said, the crisis happened because currency traders saw an opportunity to make money.

"Fund managers in the same month saw the Malaysian economy to be weak and was en route to a collapse.

"They said that the economy was not well-managed and would collapse.

That is merely an excuse. When they began unloading the ringgit and Malaysian shares, a move akin to pulling the rug from under one's feet, they had in fact fulfilled their earlier predictions," he added.

Dr Mahathir said currency manipulators normally target countries that are reasonably rich, but not rich enough to be able to retaliate. Chile, with strong economic growth, could be a prime candidate for manipulation.

Chilean President Eduardo Frei Ruiz-Tagle, in a speech yesterday, expressed his support for cooperation among developing countries to fight manipulation.

Dr Mahathir said in the immediate term, Malaysia and its people would have to do all it can to undo the damage done in the last three months. "We did it before, and we think we can do it again," he said.

He was also asked to comment on the recent downgrading of Malaysia by international rating agency, Standard & Poors.

"Naturally their rating is in accordance with their perception. We have no way of rejecting or qualifying their rating but there were others who had a different perception of the country," he said, adding that investments still came in even during the period when Malaysia was considered a "bad risk".

Dr Mahathir also said the country cannot afford to impose measures to curb manipulation of the ringgit and the stock market as they may be misinterpreted.

He said the country could also be punished for speaking openly about the crisis affecting it.

"We are not supposed to speak freely. We must not say things that they don't like. If you do, then your currency will go down.

"I said something they didn't like in Hong Kong, the ringgit went down. I said something they didn't like when I was in Kuala Lumpur, the currency went down. I said something they liked, and the currency went up," he added.

Dr Mahathir said the weakened ringgit and the bearish stock market could result in a lower growth rate this year for Malaysia, which was projected at 8.2 per cent at the beginning of the year.

The lower growth rate could persist unless there is a mechanism to monitor currency trading and eliminate abuses by manipulators, he added.

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