

27 OCT 1997

INTEREST RATE NOT A SUITABLE WEAPON, SAYS MAHATHIR

By: Wan A. Hulaimi

EDINBURGH, Oct 27 (Bernama) -- Malaysia did not raise interest rates to defend the ringgit from currency speculators because that would only attract short term foreign direct investments into the country which would be pulled out once profits are made, Prime Minister Datuk Seri Dr Mahathir Mohamad said here today.

Speaking to Malaysian journalists before the close of the Commonwealth heads of government meeting (CHOGM) here, Dr Mahathir said that he had always told big banks and financial houses that "we did not wish to meddle with interest rates or the value of currency" because this would bring undesirable results.

He said raising interest rates could also stifle growth and encourage the entry of foreign short term money.

"This is what they want to see. Of course foreign money comes into the country but this is short term money. They come in, they take advantage of the high interest rate, and once they've made their profits they pull out," he said.

He added, "We don't want that kind of foreign direct investment because they are short term. They are not serious, they are not productive, and they just want to take advantage of our high interest rate."

Dr Mahathir then said that Malaysia had "made a mistake" regarding foreign investments.

He said, "For example, a lot of companies, wishing to see their shares appreciate carried out roadshows in America and elsewhere to attract pension funds, for example.

"Those pension funds come into the country and buy up shares, thus pushing up the values of shares so much so that the values of those shares have got no relation with the performance of the company."

These people (foreign funds) are not interested in the dividends and do not even ask to be represented on the boards of the companies even though they may have very holdings, he said.

"What they are interested in is to push the value of their shares up and when it is sufficiently high they will dump the shares and take capital gains and then they go to another country," he said.

Dr Mahathir said he would not encourage new Malaysian corporations to go out on roadshows.

He continued: "I am not saying that all the foreign funds are solely after capital gains but we have to pick and choose. Some of these foreign funds are serious, but we shouldn't have false sales of our shares in order to increase their value. Of course, when the share values increase we have a lot more money to exchange shares, to acquire companies, but once the shares come down you'll find that you cannot (even) pay your debts."

Even though his expression of concern about the effects of speculation on national economies had been incorporated in CHOGM's economic declaration earlier, Dr Mahathir said that Malaysia would have to continue to expalin its position through bilateral meetings outside the main conference.

He said he found it difficult "to make them understand our problem because the smaller countries did not have similar problems while the developed countries simply would not understand."

"We were in the same position regarding Mexico when we thought that there was something not right done by Mexico during their financial crisis," he said.

He added that even though the developed countries realised that this was a result of speculation, they would like to blame it on market forces as if market forces were "a religious conviction."

"We were in the same position regarding Mexico when we thought that there was something not right done by Mexico during its financial crisis," he said.

He added that even though the developed countries realised that this was the result of speculation, they would like to blame it on market forces as if market forces were a religion.

He said some critics blamed Malaysia's plight on economic mismanagement, but if this were so, why was it that countries whose economies were badly managed had their currencies appreciating against the Malaysian ringgit.

Referring to the 'early warning system' mentioned in the Economic Declaration, Dr Mahathir said he thought this was added because there was no clear understanding of what currency manipulating was all about, and the question of an early warning system was raised in terms of economic management such as a big deficit in the balance of payment.

"But what they are thinking about is normal fluctuation of the currency. What they are not able to understand is that this is not normal fluctuation, it is manipulated fluctuation."

He also spoke of his plan to reform agriculture in Malaysia by introducing a mixed farming method over a large tract of land and which would break from the traditional thinking about agriculture.

He had time to look into this when he was holidaying here for two months earlier this year in the Cotswolds where he also had access to advice from an agricultural college.

This idea of mixed farming would not be labour-intensive, and would be tried out in Kedah if sufficient land was available.

The model mixed farming area would incorporate areas for padi cultivation, a new settlement with shops and other facilities, and also areas for growing 'ulam' (herbs) on a large scale.

"It will be different from our traditional idea of a Malay village," Dr Mahathir said.

At the end of CHOGM here today, Dr Mahathir flew out to Slovenia for a three-day official visit. -- BERNAMA

WAH RM