

02/10/1997

Outlaw or regulate currency trading (HL)

A. Kadir Jasin in Santiago, Chile

DECLARING "we believe in free trade", Datuk Seri Dr Mahathir Mohamad, however, asked whether this should include calmly accepting the abuse of the system.

And acknowledging "you will find difficulty in accepting what I say", the Prime Minister went on to reiterate his stand on currency trading and manipulation by rogue traders.

"We therefore, need to regulate or outlaw currency trading so that free trade can flourish."

Dr Mahathir reasoned: "We need trade to be free. But let us be honest. There can be no absolute freedom for anything.

"If a society is to exist as a society, if society is to be peaceful, stable and prosperous, there cannot be absolute freedom for the simple reason that the freedom of one (person) limits the freedom of another.

"Freedom must, therefore, be subject to freedom-limiting rules, regulations and laws in order for it to be equitably shared."

With that, the Prime Minister pleaded with participants of the 12th annual general meeting of the Pacific Economic Co-operation Council in the Chilean capital to think of ways to safeguard free trade for mutual prosperity.

Outlining Malaysia's economic management and its transformation from a two-product economy (rubber and tin) to an Asian tiger and now a victim of currency and share manipulation, the Prime Minister said the country prospered by opening itself early to direct foreign investment.

"We are foreigner-friendly," he said, adding that the industrialisation and rapid growth of the country was due to foreign investments.

Recognising the danger of depending solely on commodities, which were often influenced by outside market forces, Malaysia decided to industrialise.

Lacking manufacturing capability, a large domestic market and marketing networks, Malaysia had to rely on direct foreign investments which could be attracted only at the expense of taxes and local ownership.

"We accepted the conditions demanded of us because we needed jobs for our unemployed so desperately. We succeeded beyond our dreams so that today 80 per cent of our exports worth US\$80 billion (RM248 billion) is made up of manufactured goods and we have more than full employment. We in fact have a shortage of workers," said the Prime Minister.

As a result of these policies, the per capita income rose from about US\$1,600 in 1970 to US\$5,000 this year and reserves were sufficient to finance four to five months of retained imports and the savings rate at 38 per cent was high.

The infrastructure was the best in the region, companies were profitable, Government revenue was increasing despite lower taxation and the budget showed a surplus over the last four years.

Foreign debt was reduced through repayment, financing arrangements for development projects involved very little borrowing from abroad and the balance of payments deficit, which reached US\$7 billion in 1995 was being reduced and in 1996 it amounted to US\$5 billion. Further reduction was seen in the first half of the year.

On the back of these positive developments, said Dr Mahathir, the International Monetary Fund managing director Michel Camdessus, in a speech in California last June 17, had described Malaysia as "a good

example of a country where the authorities are well aware of the challenges of managing the pressures that result from high growth and of maintaining a sound financial system amid substantial capital flows and a booming property market".

The Prime Minister said: "Obviously, Camdessus had a lot of confidence in Malaysia, in its fundamentals, in its economy and in the management of its economy.

"Yet today, we are told that the fund managers have lost confidence in Malaysia because of weak fundamentals. The Malaysian ringgit, which hovered between 2.49 and 2.51 to the US dollar for years began to slide."

Obviously, said the Prime Minister, there were people who had been eyeing Malaysia and thought it was ripe for the picking.

He went on to narrate the attack on the ringgit and later the stock market when trading in the currency was limited to US\$2 million for non-trade related transactions.

"For a time, the manipulators were stopped. But then they began short-selling borrowed shares to obtain the ringgit. The result was a dip in the stock exchange indices," said the Prime Minister.

He declared: "No Government can sit by and watch the wealth of the country being siphoned off. A stop was put on short-selling. Angered by their inability to fiddle with the stock market, the manipulators dumped shares and ringgit."

Today, said Dr Mahathir, Malaysia had lost 23 per cent of its wealth in exchange rate terms - including the earnings of the very poor - and the stock exchange, once the biggest in East Asia, had fallen by 60 per cent in ringgit term and 70 per cent in dollar term.

The per capita income of Malaysians dipped from US\$3,600 in two months when it took 12 years to achieve that figure.

"Where had this money gone to? It did not disappear into thin air. The speculators, short-sellers and manipulators have it.

"These are rich people from rich countries. They have no compunction about impoverishing the poor in order to enrich themselves. Their excuse? The Southeast Asian economies were not open enough. Yet they seemed sufficiently open for these market manipulators to profiteer," said the Prime Minister.

Citing the introduction of the American Anti-Trust Law when Rockefeller successfully and legitimately cornered the oil market and the changing of the UK laws when Slater Walker raided companies and stripped off their assets, Dr Mahathir said:.

"Obviously, when an accepted system is abused and loopholes taken advantage of by the unscrupulous and the crooked, Governments can and have acted to put a stop to them."

Citing examples of how currency trading had adversely affected the lives of the majority of the people, countries and Governments, and how rich nations had in the past developed without currency trading, the Prime Minister said:

"In fact, they developed on the basis of fixed exchange rates. Clearly, trade in goods and services can be carried out without currency trading, but currency trading cannot exist without trade in goods and services. So, why must there be currency trading at all?

"Exchanging money to finance trade is fine, but trading money as a commodity is unnecessary and immoral."

But if currency trading could not be stopped, said the Prime Minister, efforts should be made to at least regulate it.

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