

Capital controls working, says Mahathir ²⁴

KUALA LUMPUR: Malaysia's two-month-old capital controls have been more successful than expected but the recession hit economy has not yet really recovered, said Datuk Seri Dr Mahathir Mohamad yesterday.

The Prime Minister said he expected share prices on the Kuala Lumpur Stock Exchange to rise steadily now that the controls were in place but not to reach the heights they commanded before the downturn struck last year.

He said Asia's financial crisis had set back efforts to speed up trade liberalisation.

"Yes, people are now rethinking whether liberalisation would actually benefit them.

"What they see is an attempt to depress the value of companies here and then pick them up at very low prices and then control those companies, maybe revive them or maybe strip the assets.

"This is not the kind of thing that we fore-

saw when we were thinking about liberalisation," he said in an interview after opening the Reuters office at the Mandarin Oriental Hotel here.

Dr Mahathir said capital controls were a short-term approach to combatting the economic crisis but Malaysia would not scrap them unless currency speculation was checked.

Asked to assess the impact of the controls, Dr Mahathir said: "So far it has been better than what we expected, especially in terms of the increase in the (foreign exchange) reserves, although of course the economy has not really spurred again."

Dr Mahathir said Malaysia wanted leaders attending the Apec summit in Kuala Lumpur to focus on curbing currency speculation as a solution to the region's economic crisis.

"Having to fix the exchange rate is not a real solution. But we need to control curren-

cy traders so that they can do less damage to other people.

"We had no capital controls. We were doing very well until the currency traders came in.

"Obviously, the currency traders are the problem and we have to resolve that. Then we can go back to the old system."

"So the world community must really tackle this problem," he said.

He added that he felt people had begun to adjust to the controls which had also allowed the central bank to push down interest rates.

Dr Mahathir said a slowdown in currency trade had helped other stock markets, but as Malaysia's ringgit had been pegged, the Kuala Lumpur index had lagged.

"I think we would be looking for a steady increase to a certain reasonable level," he said. "We are not looking at the return to the

■ TURN TO PAGE TWO

Dr M: Destructive business activities must be curbed

■ FROM PAGE ONE

old, very high index which was not realistic."

Dr Mahathir said currency traders had destroyed wealth in Malaysia that had been created over 40 years.

"And this kind of destructive business activities must be curbed. We talk about free trade and free flow of capital. We presume that this is in order to benefit everybody. But here you would seem to think that this is a religion that we must follow even if it destroys us."

Dr Mahathir said foreign investors would return to Malaysia if they saw opportunities to make money, and said long-term investors with factories in the country had not stopped coming.

"It is only those people who are investing in the stock market, they of course find that not being able to come in and out and make money from capital gains very unattractive. So they are not coming back. But, in time, I think they will come. The serious investors will come," he said.

The Prime Minister denied there was a new wave of state intervention in the economy but that the Government had a responsibility to back businesses.

"We collect 28% of their profits by way of corporate tax. So it is our duty to help save companies which can be saved," he said.

"If they are gangrenous, as I said, we will amputate them, but these are not. These are sound companies which have serious problems because of the manipulation of share prices as well as the

depression of the value of the ringgit.

"If we allow them to go under, we are not just allowing one or two people to go under. A whole system is going to go under."

He cited Renong Bhd which recently announced a government-backed debt restructuring plan.

"In the case of Renong, thousands of people would suffer," he said.

He was asked if the Renong deal and a reported plan by Petronas to buy a controlling stake in Proton were bai-

louts.

"No, they are not bailouts. Certainly not the kind that LTCM was involved in," he said, referring to US hedge fund Long Term Credit Management which nearly collapsed recently and is now subject to a bailout package put together by banks and brokerages.

"There, it is a real bailout by people who invested in LTCM and using funds belonging to banks to bail out something that would help them personally," Dr Mahathir said.