

24/10/1998

A different set of rules for the West

DATUK Seri Dr Mahathir Mohamad said Asian countries would have been accused of cronyism and abuse of power if they had bailed out any of their ailing companies as was done by the United States on the Long-Term Capital Management Fund.

Dr Mahathir said in the case of LTCM, the US did not only help its cronies, but used other people's money to help themselves.

He said with a capital of only US\$4 billion (RM15.2 billion), the LTCM was able to borrow US\$120 billion. Subsequently, this sum was used by LTCM to borrow US\$1 trillion.

He said since hedge funds were not supervised in any way and lending to hedge funds have not been monitored, hedge funds including LTCM have been able to leverage up to 200 times its capital.

"Almost all the giant banks of the West provided this large sum. Following the problems at LTCM, UBS, the largest bank in Europe, experienced losses of US\$700 million.

"There were other funds and banks that experienced losses of more than US\$1 billion."

He said given the likelihood that the financial system of the West would completely collapse, the Federal Reserve Bank of the US, compelled Western banks to bail out LTCM through the granting of loans totalling US\$3.5 billion.

"The depositors' money was utilised to facilitate this bailout. The fact that the banks' directors who provided the money for the bailout were also investors in LTCM was not at all perceived as unethical," Dr Mahathir said.

Dr Mahathir said the collapse of LTCM would also affect other financial institutions and this might adversely affect the US economy.

As it is, he said, the US dollar has fallen sharply against the Yen. The US dollar, which was previously equal to 140 Yen, had fallen to an intra-day low of 112 Yen.

Dr Mahathir said as the West could now see the possibility that they too, might face a financial crisis as a consequence of currency trading by hedge funds, they had begun to speak about the importance of currency trading control.

"However, up to now, their actions have been limited to mere talk. It does not appear that they intend to regulate currency trading. We are concerned that if they impose any rules, they will be directed at saving their own economies and finances only."

He said the interests of developing countries like Malaysia were not important to them.

Dr Mahathir said due to such attitudes, Malaysia could not depend on their assistance.

"Our destiny is in our own hands," he said adding that they condemned the recent measures introduced by the Government and frequently asked when the controls on the trading of the ringgit would be lifted.

He said although Malaysia believed in free markets and the free flow of capital, it had witnessed how the freedom could be abused.

"We will, therefore, not allow them to trade our currency as they please. As long as they do not put in place rules to effectively control the trading in currencies, we will not permit the value of our Ringgit to be determined by them."

(END)