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PM: Reform messy financial system (HL)

Lokman Mansor in Tokyo

TOKYO, Tues: As Asia's financial turmoil approaches a full year without signs of abating, Prime Minister Datuk Seri Dr Mahathir Mohamad today renewed his call for a reform of the "messy, unreliable and destructive" international financial system.

The Prime Minister told a conference of economists here that reform should aim at ensuring currency stability and check the activities of currency speculators.

Dr Mahathir said with the invention of arbitrage and futures trading, the need for exchange rate stability for trading has given way to the desire of currency traders to make massive amounts of money in the shortest possible time.

"Everything points to the need for an international financial system which will bring about stability in the exchange rates among other things.

"It would be a sad commentary on the ability of the world's financial and economic geniuses if they cannot come up with proposals on a new international financial system," he said at the Institute for International Monetary Affairs' symposium on "Revitalisation of the Japanese Economy and the Future of Asia".

Dr Mahathir said fixed exchange rate is no longer possible or realistic, as the political, economic and social performance of a country will have an effect on the value of its currency.

He said if a country is having a revolution it is likely that its currency would be less acceptable and therefore should be devalued.

As for the economy there are various indices which can be given points indicating its strength and therefore the currency.

"It is not beyond the capacity of the world's great economists to devise a measurement of the economic performance of a country using its political, economic and social indicators and then determine the relative value of its currency.

"The currency traders can still speculate but whether they buy or sell should not affect the value of the currency.

"This is of course only a suggestion. The financial experts and the economists may laugh but it will stop the currency traders from laughing all the way to the bank," Dr Mahathir added.

Dr Mahathir said the habit of economic experts to attribute the turmoil to bad practices by governments sounds much like an apology and in defence of the currency traders.

"Money does not know whether a Government is good or bad and react by adjusting its rate of exchange. Somebody is doing that and is evidently making a lot of profit. Do we need to protect these people's interest at the expense of world trade?"

Dr Mahathir said there is nothing to indicate the need for currency trading other than the vast profits that can be made by currency traders. On the converse, the extent of the damage to the economies of whole countries and regions that currency trading can inflict is well-known.

The excuse that currency trading provides market forces with the means to discipline governments is totally unacceptable, he said, as currency traders thrive on unstable currencies.

"It is ridiculous to suggest that they would discipline governments and reward them with exchange rate stability when such stability will deprive the traders of their opportunities to make money," he said.

He said devaluation or revaluation are not the answers to the world's economic problems.

Improvements in productivity can be achieved through greater skills, better management and continuous technological improvements.

Dr Mahathir said as much as the East Asian region grew together by working together, they must also now work together to get out of the present economic morass.

"We must do this because we cannot allow corruptive influences to determine who supplies us with what," he said.

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