

20 AUG 1998

Mahathir-Vindicated

DR MAHATHIR'S REMARKS IN HONG KONG PROVEN RIGHT

KUALA LUMPUR, Aug 20 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad, whose seemingly controversial remarks last October that the actions of currency manipulators must be checked had caused ripples in the market then, has now been vindicated.

Hong Kong, which has been known to be fiercely proud of being a bastion of the free market economy in the region and of adhering to the philosophy that government should not intervene in market activities, is now doing just the opposite.

Dr Mahathir, during a meet-the-people session here today, said the Hong Kong government was now vigorously intervening to prop up its currency, stock and futures markets after they were attacked by speculators.

"What I said there during the International Monetary Fund/World Bank meetings was in contrast to the philosophy of free trade, but today, the Hong Kong dollar and stock markets are being attacked by speculators so badly, that the government there was forced to take action to stop currency traders," he said.

The Hong Kong government intervened in the stock market last Friday, targeting speculators who were putting pressure on the Hong Kong dollar and shorting Hang Seng Index futures to benefit from a falling stock market.

"This goes against the principles of free market trade," the prime minister said, adding that "their philosophy (of free trade) has been thrown out of the window."

"We are also keen to see a free market but a free market also needs to be regulated, otherwise speculators would plunder the wealth of the people," said Dr Mahathir.

He also said that when he made those remarks after the currencies of Malaysia, Thailand, Indonesia and South Korea were attacked by currency manipulators, Hong Kong, which was relatively unscathed at that time, blamed regional economies and governments for the crisis.

He said this showed that it was easy to criticise others in trouble when one was not attacked, but when they themselves were attacked, they resorted to the very things they opposed previously.

Dr Mahathir said the economic crisis was not caused by governments as evidenced in South Africa and in Russia just recently, whose currencies had also been attacked by speculators, with the latter yet to pass on the benefits of a free market to its people.

As a result of the attack, the Russian currency had depreciated by more than 30 per cent, prompting the Russian government to undertake a de facto devaluation of the rouble along with imposing a 90-day moratorium on its foreign debts.

Dr Mahathir also took to task the strict conditions imposed by the International Monetary Fund (IMF) on aid recipient countries -- Indonesia, Thailand and South Korea, saying they did more harm than good.

Citing the worsening unemployment situation in these countries, the continued depreciation of their currencies and deepening social problems, he said Malaysia's economy would worsen if it had received aid from the IMF and was forced to comply with the strict conditions laid down by the Fund.

Among the IMF conditions was raising interest rates, which was supposed to stabilise currencies, but the Indonesian currency had fallen drastically from only 3,600 rupiah to the dollar to 11,100 currently.

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They said that in the process, this has threatened to turn a necessary short, sharp recession into a depression and that policy must be changed, regardless of the IMF.

One writer quoted in the International Herald Tribune said that in almost every economy in East Asia, real (inflation-adjusted) prime lending rates were well above five per cent but in South Korea and Thailand, the countries where the IMF has had the most impact, they were in double digits.

Another said that the "IMF pretends to be a lender of last resort and dictates policies as if it were. But it has neither resources nor the will to require major shareholders to address the international problems caused by their banks in the name of open capital markets."

Dr Mahathir also said an open market allowed speculators and manipulators to benefit from other people's misery.

At a press conference later, the prime minister said there would always be economic turmoil as long as currency traders were protected.

For instance, during the Mexican crisis a few years ago, the peso recovered through the assistance of the IMF, World Bank and the United States.

But currency attacks by speculators between January and now had forced down the Mexican peso by more than 40 per cent.

"It can fall again as long as currency trading is allowed to continue in its current form," he said.

Dr Mahathir said until the world economy accepted the fact that currency traders were the cause of the current financial turmoil, all world economies would be exposed to this threat.

Asked whether countries that had fallen victim to speculative attacks would join forces to counter currency speculators, he said "if we were to join forces, they (speculators) would immediately hit us badly. They can reduce you to nothing."

Citing the significant fall of the rupiah, he said, "They can destroy you completely and chop you to pieces. The currency traders are powerful people."

On whether Hong Kong's intervention in the stock market showed it had heeded his calls for control over currency trading, he said it appeared there were people who did not want to recognise what he had proposed although what they were doing now was what he had advocated before.

He said these governments were now talking about regulating currency

trading but they did not admit to it because they were proud.

On whether his comments that the government would buy shares of companies badly hit by the slowdown had caused the local stock market to record two straight days of sharp gains, "I don't know whether this was due to my statement, maybe it is something else."

He said that the government would direct funds to go into the market to defend share prices of companies.

However, he acknowledged that when prices were supported, there would be moves to pressure them down and hence there would be a see-saw movement in prices.

Asked how long would the government support the market, he replied that it would continue to do so until there were global controls on currency trading.

The prime minister said the government needed Malaysians to be united so that it could concentrate on fighting back the manipulative currency traders.

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TEAM MR SHY