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Exchange rate control benefits seen (HL)

Hardev Kaur in Tokyo

THE beneficiaries of Malaysia's exchange rate controls are numerous and the losers are only the currency traders who "deserve to lose", Prime Minister Datuk Seri Dr Mahathir Mohamad said.

Dr Mahathir said the measures taken by the Government are calculated to achieve stability all round; political, economic, financial and social stability for now and for the foreseeable future.

Even within the short period of a month the performance of the economy is "quite encouraging," he said, adding that reserves have increased and businesses improved.

The slide into contraction has been slowed while foreign direct investment has not been adversely affected, he said.

Investors, both foreign and local, are finding that the fixed exchange rate makes forward planning easier and more reliable.

Businesses need predictability of the future environment and the fixed exchange rate provides this.

As a result of the measures, the share prices reflect the performance and asset value of the businesses more closely.

Dr Mahathir said: "We think we are already seeing the economy turning around. We think we are on the road to recovery".

He explained that exchange rate control is not the same as control on capital flows.

What Malaysia has done is "only to enforce currency movement regulations so as to be able to control the exchange rate."

Controls, however, are not unique to Malaysia. Even in the most developed countries the movements of currency in and out of the country are recorded and controlled.

Dr Mahathir who arrived here yesterday morning for a five-day working visit said this in a luncheon address on "The Exchange Control Policy of Malaysia".

It was organised by the Japanese news organisation, Nihon Keizai Shimbun Inc, for selected corporate leaders, bankers, journalists and academicians.

"The allegation that Malaysia is isolating itself from the international community is completely without basis," Dr Mahathir said adding that "Malaysia is a trading nation. It just cannot isolate itself if it wants to trade."

In fact a fixed exchange rate facility, such as that adopted by Malaysia, facilitates trading.

Hedging is no longer necessary and this reduces cost of trading goods and services.

Because capital can flow in and out of Malaysia, foreign investment and foreign trade are not affected.

Malaysia, in fact, recorded a huge trade surplus of RM32 billion in the first seven months of this year. This is a reversal from the deficit in the corresponding period last year.

With this large trade surplus and minimal foreign short-term loans, the Prime Minister told his audience, there will be no shortage of foreign currencies in Malaysia.

Even so there is need to conserve foreign exchange and imports must necessarily be limited to essentials and exports enhanced.

A "Buy Made-in-Malaysia" campaign has helped to slow the outflow of

funds. Travel by Malaysians is also not too restrictive.

Even as the country tries to protect itself and insulate from the vagaries and devastations of currency fluctuations, Dr Mahathir said greedy foreign capitalists and their collaborators would still try to undermine the measures the Government had taken.

The Prime Minister said: "They would want to force us to submit to them again. But so far we have been able to withstand their attempts".

* FULL TEXT OF SPEECH: P10,12

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