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Mahathir-Currency

MAHATHIR CONFIDENT EXCHANGE CONTROLS WILL GAIN WORLD ACCEPTANCE

By: Azman Ujang

TOKYO, Oct 16 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad said today he is confident that the foreign exchange and currency controls introduced by Malaysia recently will gain international acceptance as a means to stop the anarchy on the world financial markets caused by greedy currency manipulators.

He said some forms of exchange and currency controls first implemented by China and later Malaysia were already beginning to be recognised by even Western nations and institutions which originally dismissed the move as anti-free market.

"Certainly for Malaysia, it has done a lot of good to our domestic economy since we imposed the controls last month. It has created a more predictable environment for doing business and we will continue such measures until the international community regulates currency trading," the prime minister said during a question-and-answer session after giving a luncheon talk to about 100 Japanese corporate leaders, bankers and academicians, here.

In a prepared speech earlier, Dr Mahathir spoke on Malaysia's exchange control policy in which he explained Malaysia's decision on Sept 1 to fix the exchange rate of the Malaysian currency, ringgit, at RM3.80 to US\$1 and to no longer make the ringgit legal tender in other countries from Oct 1.

The move was aimed at insulating the Malaysian currency from the uncertainties caused by speculative attacks in the world currency markets which since July last year have brought the value of the ringgit down by 60 per cent, resulting in its first economic recession since the early 1980's.

Dr Mahathir chose today's forum to make another appeal for world currency trading to be regulated, a message he had consistently sent out since he first spoke about it at last year's International Monetary Fund and World Bank meetings in Hong Kong.

"What we do hope is that one day, currency trading will be regulated. There will therefore be a convergence between the policies of China and Malaysia and at the same time other countries would have instituted some minimal controls so that their economies are not too subjected to people from outside who just want to make money," he said.

He said that when he first warned last year about the need for regulations in currency trading, he was laughed at but now he was glad that more and more countries had got around to his views.

"There would be that convergence of views and hopefully there would be one world system in which the financial regimes would apply to all countries of the world. That would be a very healthy situation," Dr Mahathir said.

The prime minister also called for curbs on the enormous power of hedge funds which could now leverage by up to 30 and 50 times their capital.

In his view, hedge funds should be allowed to leverage only by 100 per cent of their capital and even that, only once.

They should further disclose their dealings to put an end to the kind of trading they now do in which everytime they sell, the currency goes down.

"That has to be changed. If you sell coffee, as long as there's a buyer for a particular price, the price doesn't go down. But why is it that when you sell a currency, the price of the currency goes down.

"This is done by them, so that also has to be changed so that if there

are buyers, the currency doesn't go down," he said, adding that in this way, currency traders would have to stretch their capital a lot more before they could achieve a fall in the currency.

This, said Dr Mahathir, would deter people from being too much involved in currency trading.

He also said that once currency trading could be regulated, countries like Malaysia and China which had controlled exchange rates would be willing to come back (to the currency market).

"And we certainly have always said that if you have proper regulations, we will lift control of exchange rates. At that stage not too many people would be able to play with the exchange rates and make money because they can speculate but not manipulate," he said.

During the Q & A session, the prime minister was also told that U.S. President Bill Clinton had praised China during his recent visit there for its exchange controls but had not praised Malaysia for doing the same.

"Maybe because China is already a closed economy but Malaysia was an open economy but is now not so open. I don't mind President Clinton not praising Malaysia. Malaysia has never been praised for anything and this is not strange," he said.

Earlier, in his luncheon speech, the prime minister, who arrived here this morning for a five-day visit, said the only people who would not benefit from Malaysia's currency and exchange control measures were the currency traders.

"We are now seeing how destructive these people can be. If they lose I don't think we should be sorry. It is their abuse of the currency exchange which has caused the present economic turmoil in the world. They deserve to lose," he said.

Dr Mahathir also described allegations that Malaysia was isolating itself from the international community as "completely without basis".

He said Malaysia, of all countries, was a trading nation and one which had benefited greatly from capital flow through direct foreign investments and it did not make sense for the country to obstruct capital flow.

He told the forum, organised by Nihon Keizai Shimbun Inc. (Nikkei), a leading newspaper group, that in the first month of implementing the new strategies, the performance of the Malaysian economy had been encouraging, with foreign reserves increasing and business generally improving.

Other positive economic indicators are that the slide into contraction -- expected at minus 4.8 per cent this year -- had been slowed down with both foreign and local investors finding that the fixed exchange rates had made forward planning easier and more reliable.

He assured investors that capital could flow in and out of Malaysia without restriction and that what Malaysia had done was only to enforce currency movement regulations so as to be able to control the exchange rate.

Because the ringgit is now legal tender only in Malaysia, trade settlements have to be in foreign currencies which must be changed into ringgit to pay for all transactions within the country.

This means that to take out money, the ringgit must be changed into foreign currencies.

But the prime minister does not foresee a shortage of foreign currencies in Malaysia because the country has a large trade balance and minimal short-term loans.

He said that with the economy expected to grow at 1 per cent next year, it would have turned around by 5.8 per cent (from the 4.8 per cent contraction this year).

"In business, the most important thing is stability and predictability. We may succeed or we may fail but whatever happens there will be a lot of

lessons in financial management of a country that will be useful for everyone.

"We think we are already seeing the economy turning around. We think we are on the road to recovery," he said.

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