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Mahathir - Euro

MALAYSIA TO USE EURO IN TRADE WITH EUROPE, SAYS DR MAHATHIR

By: Michael Raj

TOKYO, June 2 (Bernama) -- Malaysia will use the euro, Europe's single currency expected to be introduced next year, in its trade with countries in the European continent, Prime Minister Datuk Seri Dr Mahathir Mohamad said today.

The prime minister said this was part of efforts by the government to reduce dependence on any single currency, particularly the US dollar.

Dependence on the greenback had made the Malaysian economy vulnerable, owing to the currency volatility as a result of the ringgit declining significantly due to speculative attacks since last July.

For instance, Dr Mahathir said trade with the United States comprised only 18 per cent of total trade, but 70 per cent of the country's trade was transacted in the US dollar.

"And when the dollar rises, we have to pay more and our economy is weakened," he said during a question-and-answer session at a symposium here organised by the Tokyo-based Institute of International Monetary Affairs.

"Even now, we are trading in the currencies of our trading partners in Europe such as the deutschemark and British pound although the latter has become strong at the moment," he said.

He said Malaysia did not intend to peg the ringgit against any currency but would use a basket of currencies, a move which would mitigate the adverse effects of any sharp rise in one currency.

The prime minister's responses also touched on various issues, including why Malaysia was not totally adhering to International Monetary Fund (IMF) reforms such as raising interest rates although it had implemented various IMF-style measures since the currency crisis erupted.

Raising interest rates and increasing taxes, which seemed to be the standard formula for economies affected by the currency crisis, could bankrupt companies and a similar fate could befall governments for they depended on corporate taxes to sustain their operations, he said.

"That is why we are hesitant in going the full way of the IMF but as far as the AMC is concerned, we are following the experience of the savings and loans problems prevalent in the United States in the mid 80's," he explained.

He said Malaysia also drew lessons from Japan's mistakes when it did not deal with NPLs at the early stages, which was why the AMC was mooted to prevent such loans from burdening the banking system.

On a lighter vein, Dr Mahathir said Malaysia was not just looking East (to Japan), but looking very Far East to America and the Resolution Trust Corporation and how the Americans handled the savings and loans problems.

Another IMF recommendation which has drawn criticism was the closure of 16 financially-troubled banks in Indonesia, which while aimed at restoring confidence, had the exact opposite effect with people fearing which bank would be the next casualty.

"You mishandle a bank's problems, you can have a whole banking system's problems, closures would undermine confidence, people would take money out of the country and then the whole system would fail," he warned.

"In our case, when we see the NPLs growing, it is not because they are actually NPLs. But when we devalue currencies, then you push down the value of share prices, companies get into distress, they cannot pay," said Dr Mahathir.

Malaysia was told that the NPLs should be considered NPLs after three

months and not six months as before and "in halving the time, obviously the number of NPLs would be high," he said.

Besides this, additional IMF conditions, especially forcing affected economies such as Indonesia, Thailand and South Korea to open up to almost full foreign participation, were also not being received favourably by many.

Many economists were questioning whether such a move was designed to aid in reviving an economy or enable foreigners to buy up assets of companies of the troubled economies at basement prices.

Dr Mahathir said such reforms by the IMF without taking into account the repercussions could bring the economy to a standstill.

Against such a scenario, quite a lot of people were critical of the IMF in exacerbating the crisis and that there was some basis for fearing the "medicine" dished out by the IMF to the affected economies.

"Although the patient is very sick and needs medicine, some medicines do kill, I know, I am speaking as a doctor," he said amidst laughter from the audience.

Asked why Malaysia was being seen as following IMF-style reforms, Dr Mahathir said: "Frankly, we feel threatened. We are told that if we don't do those things our economies will depreciate further."

On his proposal for a reform of the international financial system, the prime minister said it was premised on a stable exchange rate system.

This was the case of the Bretton Woods agreement after the Second World War, which allowed economies made bankrupt by the war, such as Germany and Japan, to not only recover, but to prosper as well.

He also remarked: "You can become bankrupt with violent fluctuations in exchange rates with currencies moving from 100 per cent devaluation to 600 per cent devaluation...do you want to bankrupt the world?"

Dr Mahathir expressed confidence that with exchange rate stability, affected economies from the currency crisis, which erupted after the attack on the Thai baht in July last year, could recover.

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