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Mahathir-controls

M'SIA'S EXCHANGE CONTROLS INVENTIVE, SAYS MAHATHIR

PETALING JAYA, Oct 10 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad said that Malaysia, faced with the financial crisis, had to resort to radical and unusual ways to deal with an unusual situation.

The repercussions on the economy would have been worse had Malaysia not done anything, he said.

Malaysia's pegging of the ringgit at RM3.80 to the US dollar through the exchange control measures was both inventive and innovative, he said.

Inventiveness in economic and financial management was no different from inventiveness in the other fields, he said referring to the fallout of the unexpected financial crisis now taking on global proportions.

"Orthodoxy will cause stagnation, conservatives never progress and those who fear change will be condemned to wither away where they stand," he said opening ITEX '98, the annual international invention, innovation, industrial design and technology exhibition, here today.

The prime minister said that "to invent new methods of doing anything, it is worthwhile to relook the old ways to identify their strengths and their faults and then to modify or innovate the old ways."

"That's what Malaysia has done, by looking back to the old ways where the value of money was determined by the value of gold as well as the fixed exchange rate of the Bretton Woods regime," he said.

Bretton Woods was the post-war international financial order designed to regulate financial markets, which included fixed exchange rates, and which led to the setting up of the International Monetary Fund and the World Bank.

"Going back to gold is not practical, but the fixed exchange rate of Bretton Woods has obviously enabled the post-war economic recovery and subsequently worldwide prosperity to take place," he said.

"It did not fail because the (exchange) rates were fixed, but the (Bretton Woods) regime failed because major developed countries reneged on their promises, as they devalued their currencies to become competitive and overcome their mounting costs due to excessive wage demands," he said.

Dr Mahathir said that by identifying the true cause of the failure of the Bretton Woods formula, the idea of using a fixed exchange rate to achieve economic recovery became more acceptable.

"The rich countries which have smugly said that the currency fiasco in East Asia would not affect them are now finding they are not safe from currency traders and their destructive activities," Dr Mahathir said.

"The failure of the Long Term Capital Management hedge fund has forced the great western governments to look more closely at currency trading, now even the IMF has admitted the need to regulate currency trading.

"Clearly, necessity is the mother of invention," said Dr Mahathir.

"The past year's events have been extremely chaotic and painful to Malaysia as suddenly, we find ourselves seemingly helpless and unprepared to handle the situation brought about by others," he said.

"Most of us tend to handle the new situation in the orthodox way, in other words, we are not inventing," he said.

"We are not even willing to question conventional wisdom, believing that the usual way must be the correct way," he added.

-- BERNAMA

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