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`Only significant shift will lead to peg review'

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MALAYSIA may review its fixed exchange rate of RM3.80 to the US dollar if there is a trend showing a major shift in the competitiveness of the local currency against other currencies, especially those of neighbouring countries.

The Japan Federation of Economic Organisation (Keidanren) vice-chairman Naohiko Kumagai said that during his meeting with Datuk Seri Dr Mahathir Mohamad yesterday, the Prime Minister had said the peg may be reviewed in the event of a significant change in the performance of the ringgit to other currencies.

He added that Dr Mahathir cited "20 per cent either way" as an example of a significant shift in the ringgit's competitiveness with other currencies.

"The Prime Minister expressed his view that the fixed ringgit exchange rate should be stable for the longer-term as a short-term peg will pose difficulties to the private sector to manage in a stable manner.

"However, he said the ringgit is still subject to fluctuations against other currencies especially those of neighbouring countries, and if there is a major change in the exchange rate, Malaysia may have to review the ringgit peg.

"These fluctuations may only be a temporary shift in the exchange rate competitiveness, so the Prime Minister said it must be made sure that the shift stays as a trend," Kumagai said in Kuala Lumpur yesterday during a Press conference held by Keidanren.

He clarified that Mahathir stated a 20 per cent shift "as an example and not as a specific number or criteria to trigger a review of the ringgit peg."

The 24-member Keidanren mission, led by chairman Takashi Imai who is also the chairman of Nippon Steel Corporation, had called on Dr Mahathir, Minister of International Trade and Industry Datuk Seri Rafidah Aziz and Special Functions Minister Tun Daim Zainuddin.

Imai said total Japanese direct investments to the Asean 4, namely Malaysia, Thailand, Indonesia and the Philippines, had increased by 150 billion yen (RM4.7 billion) to 750 billion yen during the period April 1997 to March this year.

Earlier, Bernama reported that, during its meeting with Dr Mahathir, the mission wanted to know more about the economic measures taken by Malaysia.

The agency quoted Foreign Affairs Undersecretary for East and South Asia Datuk Syed Norulzaman Syed Kamarulzaman as saying: "Dr Mahathir explained the rationale behind various economic measures, including the pegging of the ringgit and they understood.

"They were also encouraged that there were signs of improvement following the implementation of these measures."

Norulzaman added that the mission members in turn explained to Dr Mahathir the kind of economic measures taken to revive the Japanese economy.

"There is an understanding of each country's role which is of importance as the recovery of Malaysia and Japan will help this region," he said.

Norulzaman added that the mission also supported Japan's yen loan of US\$1.8 billion (RM6.8 billion) to Malaysia to help ease the country's burden during the current economic crisis.

The Keidanren mission will visit Singapore next after its two-day visit

to Malaysia.

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