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PM hopes there will be one 'world financial system'

Hardev Kaur in Tokyo

TOKYO, Fri: Malaysia hopes that there will be one "world financial system" which could be applied to all countries in the world. Prime Minister Datuk Seri Dr Mahathir Mohamad said this "would be a very healthy situation".

In reply to a question from a Japanese businessman, Dr Mahathir said once currency trading is regulated, countries like China and Malaysia, which have exchange rate controls "will be willing to come back" (to a system without such controls).

Malaysia has made it very clear from the outset that once there are proper regulations "we will lift controls on exchange rate as at that stage not too many people would be able to play with the exchange rate and make money. They can speculate but they cannot manipulate".

Initially there will be divergence (between those with controls and those without) but there is already "a feeling that controls are not bad", the Prime Minister said.

Citing an International Monetary Fund (IMF) publication, he said "you can see clearly that the countries where the currencies are controlled have done better."

The IMF publication listed the performance of about 15 countries and the worst performers in the list are those under the IMF regime - Indonesia, Thailand and South Korea. These conclusions were reached by the IMF itself.

"So as people begin to think that such IMF policies are no good they will revise them and the revision is towards some form of control, some form of rules and regulations.

"There will therefore be a convergence between the policies of China and Malaysia which would become more relaxed and at the same time other countries would have instituted some minimum control so that their economies are not too subjected to people from outside who just want to make money and who are just pursuing their greed."

Dr Mahathir, who is here on a five-day working visit, had earlier delivered a luncheon address on "The Exchange Control Policy of Malaysia".

Among the controls that Malaysia had propagated since the outbreak of the currency crisis last year are those on hedge funds.

Dr Mahathir told the luncheon gathering that hedge funds, for example, should not be allowed to leverage by 20, 30, 50 times.

They should be limited and they should also be transparent and disclose "everything and the kind of trading they do".

Explaining the operations of currency traders at length, Dr Mahathir said their operations differed from those of commodity traders.

He said when a trader sells coffee, for example, as long as there is a buyer the price of coffee does not go down. But "the way you sell a currency each time you sell, it goes down".

This has to be changed, he said, adding if there is a buyer then the currency should not go down. As such, traders will have to stretch their capital before the currency being traded falls. This will, in turn, deter them from being too involved in currency trading.

When asked why US President Bill Clinton, during his recent visit to China, had praised China for its economic policies and controls but the same praise has not been heaped on Malaysia, Dr Mahathir replied that it could be because Malaysia was an open economy and now, according to them "it is closed but we do not think so (that we are closed)".

On the converse, China has always had the controls and continues with them. "So it is fair to praise China and not praise us."

Dr Mahathir pointed out that while Malaysia has never been praised for anything, "I am glad that everybody, and now even President Clinton, can accept currency controls".

"I think there must be something good about it. Otherwise he would not praise. So we may be doing the right thing," the Prime Minister said.

Malaysia imposed controls to insulate the Malaysian economy and stop speculation and manipulation of the ringgit by making it non-tradeable outside the country. The exchange rate has also been fixed at RM3.80 to US\$1, providing stability and predictability for businesses.

The Prime Minister assured Japanese investors that Malaysia still welcomed foreign direct investments in productive areas but not short-term funds. In addition, they can continue to repatriate profits and dividends from their operations in Malaysia, but this has to be done in foreign currency and not in ringgit.

Dr Mahathir disclosed that unfortunately, because of the controls, some investors decided to declare dividends on profits they had made 10 years ago and which had been reinvested in Malaysia. Now they claim that they had not declared the "full" dividend but only a small dividend, and now want to declare all the profits as dividends (over the past 10 years).

Since the money has already been spent, they borrow from the banks and want to convert into foreign currency and want to take it out.

"That, we cannot allow as that is money you have already spent in Malaysia," he added. "Malaysia continues to allow the declaration of dividends the same way as before but certainly not going back 10 years. That is not possible."

Dr Mahathir told the audience that even with the controls, there is no restriction in the inflow and outflow of foreign currency from Malaysia.

"The only restriction is on the outflow of ringgit. That is all."

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