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'We welcome investments in productive capacity'

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HATAKEYAMA: I have a question for Dr Mahathir. In your keynote address, you said foreign capital can come in and out of the country freely. Is short-term capital the same? Can short-term capital come in and out of the country?

Secondly, I think the fixed rate system is an interesting experiment and I am in favour of it given the circumstances. But if the floating system which was taken in July last year had continued, and even if the currency dropped like this, there would still be an adjustment and exports will go up.

But now with the fixed rate system, it may be the case that foreign reserves may really decline much more than before without the support of the fluctuations being allowed through the floating system.

DR MAHATHIR: In the first place with regard to short-term foreign capital, we realise that short-term foreign capital is not doing the economy any good. What they do really is come into the share market, push up the value of the shares and then dump the shares and they take out the money and we are left with a company which is bankrupt.

This is what Slater Walker used to do and we know what happened to his asset-stripping activities. We are not really keen on people who come into the market who are not serious about investing. They just want to push up the share prices and then sell the shares.

We want people to come in and invest and stay and help the company to do well so that they can benefit from the dividends. These are not short-term capital, they are longer term.

Investments in a productive capacity, by setting up a factory, there is no problem at all. You can bring in the money and change it into the local currency, spend it to build your factory, to produce whatever and then you can export your products and when you export you earn foreign exchange and that foreign exchange when it is brought into the country will be converted into the local currency.

But if you need the foreign exchange in order to buy raw materials or capital goods, then you can change the local currency for the foreign currency and then import or buy whatever you need from outside the country.

So, for foreign capital coming in to invest in a productive capacity, there is absolutely no problem. They will make profits and if they repatriate their profits, all they have to do is if they make profits in the country in the local currency, they can then change into foreign currency and then take out the money.

Now, do we have sufficient foreign currency? We have instituted measures to ensure that the country has a surplus in the balance of trade.

Today after eight months, we have achieved a surplus of almost US\$10 billion (RM38 billion) compared to the same period last year when there was a deficit in the trade balance of US\$1.5 billion. Of course, to achieve that kind of trade surplus, we had to cut back on unnecessary imports and increase exports.

So far it has worked. In fact, our reserves have gone up considerably. Our reserves normally are about US\$20 billion. Now it is more than US\$21 billion.

Of course, the economy has to be overlooked by the Government very, very carefully. We have meetings of the special action council executive every

morning to check on all the figures to see that nobody indulges in black market or do something that will hurt the economy.

And foreign investors in Malaysia are quite happy with the fixed exchange rate because now there is predictability. You can now budget. If you want to predict your profits for next year, you know that you will be fairly accurate as you don't have to hedge, you don't have to deal with violently fluctuating exchange rates. So far it has worked.

SAKAKIBARA: What the PM has emphasised has to do with direct investment in productive capacity. And also into portfolio and into securities. I think we have to distinguish between the two.

When we had the last currency crisis in 1994 and 1995, it did not have a contagion effect in Asia immediately. And also the Latin American crisis in 1980 did not have a contagion effect on Asia and that was because in those days, Asia had a lot of direct investment and not portfolio investment.

But now in Asia, we see portfolio investment and with the liberalisation in that direction and Asian foreign investment structure changed which is much more portfolio investment. Now the emphasis is on direct foreign investment, the traditional one, that kind of investment I think is very important. Also with regard to the fixed rate system, particularly the Malaysian one, Dr Mahathir knows fully well that the current fixed rate system will at least continue for sometime over the mid-term.

It is important to guarantee the market that you will and can maintain the current system of fixed rate exchange system for two to three years, then really the companies will feel much more secure and invest more in Malaysia. I think creating that kind of environment is important.

The market must have confidence. If the market fears that the fixed exchange rate system may be changed (quickly), then it will create insecurity.

DR MAHATHIR: We don't change the exchange rate. If you want to suddenly become rich, then all we have to do is go back to the original exchange rate that is RM2.50 to US\$1. If we do that, we will suddenly become rich.

But we also realise that we have to compete with our neighbours. If we strengthen the ringgit too much, then we will not be able to compete.

We fixed the exchange rate at 3.80 simply because that was the market rate at that time. So, that rate makes us competitive with our neighbours.

But as you know, the currencies of our neighbours sometimes depreciate, sometimes appreciate but we are not going to follow them all the way. We will monitor the changes that take place.

Of course, if they devalue so much, then we become uncompetitive, then we may have to change the exchange rate. But what we want to do is try and improve our own productivity rather than fiddle with exchange rate.

We want to maintain the 3.800 to the US dollar for as long as possible. It's important that people will know what the exchange rate is.

We pegged the ringgit against the US dollar but as you know the yen appreciated against the US dollar and as a result the yen appreciated against the ringgit. So, trading with Japan offers us certain advantages and disadvantages.

Goods from Japan cost more but on the other hand, we earn more when we sell our palm oil to Japan in terms of yen so there is always that kind of a little bit of uncertainty but we have eliminated the kind of rapid changes which take place daily.

I get the Bloomberg report, every hour on the hour, and used to see the ringgit fluctuating. I asked myself - who is buying, who is selling, who is doing all this? Now it doesn't move.

I think business people like predictability. They want to know whether things will remain the same in the next year and the year to come or even

the next few months.

In Malaysia, they know exactly what is going to happen. Nothing much is going to happen. The ringgit remains at 3.800 to the US dollar.

We know that internationally the exchange rate still fluctuates violently. Although we fix the exchange rate against the US dollar, it does not mean that it doesn't change against the yen. It does the same thing to China. But if the changes do not take place violently every now and then, we can manage it.

The problem with the market determining the exchange rate is that we do not know why they act. We know they want to make money.

But sometimes they think the economy is going to be bad or they think you have a change in the Government. Therefore, the economy is going to be bad.

But those are excuses for trading in currency and we have no means of knowing really how they are going to react. Whether they are going to revalue or devalue. And that uncertainty is very bad for business, it's certainly very bad for running Governments.

NISHIKAWA: What is the role of Japan? It is an important question to ask.

Mr Hatakeyama, you have been with Miti and is now calling for liberalisation of markets or increasing the domestic money in Japan. Will that be a panacea and will that produce a miracle?

HATAKEYAMA: Yes, it's much better to increase domestic demand in Japan. So, the Japanese Government is putting in a lot of effort to increase demand. Will it be a magic wand? I do not know.

The Japan market is not that big if you think that if Japan's demand increases, that will be a magic wand to solve the problem. It will make only one-tenth contribution.

What we can do is very limited by increasing the demand. So, 10 per cent contribution is from Japan, 90 per cent is up to Asian Governments to do.

With regard to the liberalisation of the markets, there are three kinds of markets - markets for industrial goods, markets for agricultural goods and markets for service industries.

As for industrial goods, Japan has opened its market for manufactured goods. There is no restriction or regulation at all. So, there is no room for liberalisation of market for manufactured goods.

As for rules and regulations for the agricultural market, we have scheduled for opening of the agricultural markets by the WTO and we are reducing tariffs and all other countries are doing also and Japan cannot put in extra effort for that.

With regard to the service markets, financial and telecommunications - we have a deregulation if necessary for the liberalisation of the service market. But we do not have much exports from Asian nations.

When you consider the distribution system and character of financial markets in Asian markets, they don't have a strong market and even if we liberalise service that will not make a lot of contribution to Asean markets.

Of course, liberalisation of financial markets will strengthen the Japanese economy and we can enjoy higher economic growth and that will have a spin-off in stimulating Asian markets. But liberalisation of the service market itself does not have a direct impact on Asian markets.

SAKAKIBARA: I may be repeating myself. But I like to say that the Japanese economy and the global economy are both in critical condition and what is worse is the credit crunch. And so financial institutions are acting in a different way.

Financial institutions can no longer take risk and so there is a credit crunch. How do we respond to this credit crunch?

I think that is going to be the most important issue for the Japanese economy as well as the Asian economy and the global economy. So, when we talk of what we can do for Asia, we have to keep that in mind.

Here in Japan, the Japanese Exim bank or the OECF and Miti, the Export Insurance and the foreign reserves, we have the public money. We have to use the public money as quickly as possible, at an early stage as possible to help. But we have certain constraints.

But we have to try to resolve this problem of credit crunch as quickly as possible and to contain the damage of credit crunch to as small as possible. That is one of the most important things.

We should not take the situation of the Japanese economy or the global economy as part of a normal situation. We are in an extremely difficult situation.

We have to get the Japanese economy into a recovery path. That is extremely important because if Japan really collapses that is going to be really bad for Asia.

We can only offer at this stage US\$30 billion. But we should get the Japanese economy on its feet again so that we can offer more than US\$30 billion to Asian economies.

DR MAHATHIR: When I asked why Japan is having a problem while being very rich, why you are a rich depressed country, I was told that the domestic demand in Japan has gone down because of lack of confidence on the part of consumers in this country.

So, even though you do a lot of things until the confidence comes back, it is difficult for Japan to recover.

But Japan is also a big exporter and if Japan's markets abroad are bad, then Japan must also find difficulty in recovering. Now the market in Southeast Asia has shrunk as we have no money.

So, when Japan proposed a US\$100 billion Asia fund, we thought that would help us to recover and when we recover, we would be again a good market for Japan. But unfortunately that idea was shot down.

Now Mr Miyazawa has decided to put up US\$30 billion, it is a smaller sum, but we think if that US\$30 billion is pumped into Southeast Asia, for example into Malaysia, it will help us to recover. And when we recover, we will once again become a good market for Japan and that should help Japan towards a path of recovery.

Japan helped Malaysia to prosper in addition to the profits made by Japanese companies.

Malaysia becomes a very big market for Japanese goods. So big that we have a huge trade deficit with Japan, and Japan, of course, gained because by prospering us, Japan actually built a big market in Malaysia.

So, if you make available money for us to recover, then I am quite sure Japan will actually be helping itself because you need the market in Southeast Asia for your own recovery.

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