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MAHATHIR-CURRENCY

FREE MARKET CAN FUNCTION WITHOUT CURRENCY TRADING, SAYS MAHATHIR

KUALA LUMPUR, Sept 2 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad says that the free market can still function without currency trading and without adverse effects on real trade and foreign investments into productive sectors.

"We in Malaysia feel that we are not being disloyal to the free market if we disallowed currency trading.

"Our real trade should not be affected nor should foreign investment in productive capacities suffer," he said at a symposium on the first anniversary of capital controls here today.

Some 500 participants are attending the symposium including Dr Eisuke Sakakibara, special adviser to the minister of finance, Japan or otherwise known as "Mr Yen," Dr Amar Bhattacharya, senior adviser to the World Bank and Dr Heiner Flassbeck, former vice-finance minister for Germany.

"For a long long time, there was no currency trading while world trade grew economically. Fixed exchange rates enabled values to be attached to goods and services.

"Why selective capital controls were successful were because as the managing director of the International Monetary Fund (IMF) Michel Camdessus commented, it was a soft system," Dr Mahathir said in his speech themed "Why Malaysia's selective currency controls were necessary and why they have worked."

Contrary to what critics have assumed and stated, he said "the measures were not draconian, not heavy-fisted, in no way punishing or even inconveniencing."

No bureaucracy was needed because the commercial banks did most of the work in the normal course of their business.

Another reason why Malaysia was very successful was because of its export drive "whereby foreign exchange came in by the buckets."

"There was no shortage of foreign exchange and there was no liquidity problem," he said.

Malaysia was flushed with funds. "I would not recommend any country to try exchange controls if they are going to fail to generate substantial trade surpluses.

A third reason for the success is the fact that Malaysia is very sincerely trying to guarantee the stability of the Malaysain ringgit, not its value.

"We wanted a fixed rate, not a high rate for the ringgit.

"For Malaysia, it succeeded because it sought to stabilise the ringgit at a reasonable level, not at an overvalued level for technical stabilisation reasons and because Malaysia always had its exports and national competitiveness at the forefront," he said.

"We certainly did not try to achieve a rate for the ringgit which the fundamentals could not justify," the Prime Minister said.

"Because the ringgit was reasonably valued, there was never a rush or a reason to convert to foreign currency unnecessarily.

"Another reason was that "with this single bold step, confidence in the Kuala Lumpur Stock Exchange (KLSE), Malaysian ringgit and in the real economy was quickly restored."

Dr Mahathir said that "without this rapid, almost overnight restoration of confidence, we could not have succeeded."

Tied to the confidence and the optimism was that the controls were

selective.

"They took the most meticulous way not to in any way hinder trade or affect the repatriation of profits," he said.

To be sure, some external factors helped a great deal.

He said the hedge funds have been beaten a hasty and forced retreat after the Long Term Capital Management fiasco.

The currency stabilisation in East Asia and the economic recovery in East Asian economies have been a great help.

"We were and are fortunate that no one has followed or said that they intended to follow Malaysia's example. A heretic can be tolerated, but heresy cannot.

"We would have been punished by global capitalists and the powers that be had we spawned an intolerable heresy," the Prime Minister said.

"We should also fully acknowledge the pragmatism, unity and the will of the Malaysian people who found the will to stay united," he said.

When it became clear that Malaysia has succeeded and was well on the road to recovery, the latest argument is that Malaysia's accomplishments were clear "but the IMF assisted economies have done this as well as we have without having to resort to currency controls."

Dr Mahathir said that the proponents of this line of argument seemed to have a blind logical spot.

"If they can argue that others have achieved comparable results without having to adopt currency controls, then it can also be argued that we have achieved what others have achieved without having had to go through the misery of massive unemployment, the tragedy of children thrown out of schools, the decimation of the middle class which we have spent a generation at building, blood on the streets and political turmoil throughout the land," he said.

Dr Mahathir said that "Malaysia has been able to achieve what others have achieved without having to go into massive debts, without saddling future generations with massive debt servicing burdens, without having to sell family silver and precious heirlooms, without having to auction off precious corporations to foreigners and fire-sale prices, without having to bend and to bow to anyone and without having to kiss anyone's feet."

He said, "more assuredly, what Malaysia thinks is deeply important to her may not be equally important to others."

Saying that the economies of East Asia are all different, he added that comparisons are often difficult and unfair.

"But most surely, each country has the right to decide on its priorities and to choose its own path to recovery.

"And most obviously, the unorthodox, bold and strong measures which we took 366 days ago has borne fruit," Dr Mahathir said. -- BERNAMA

DVS/SHO MR FR