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MAHATHIR-YUAN

MAHATHIR THANKS CHINA FOR NOT DEVALUING YUAN

KUALA LUMPUR, Aug 2 (Bernama) -- Datuk Seri Dr Mahathir Mohamad has expressed gratitude to the Chinese government for not devaluing the Yuan which saved East Asian economies from a more severe financial crisis.

The prime minister said the recovery of the East Asian economies owed a lot to this decision by Beijing.

This is despite attempts by currency speculators to destabilise the Chinese economy by attacking the Hong Kong Stock Exchange (HKSE), he said.

"Had the Yuan been freely convertible, there is no doubt that the currency traders would have attacked it and plunged China and East Asia in even worse turmoil and recession," he said in his article published by Japan's Mainichi group of newspapers today.

Dr Mahathir, however, said that it was not fair to expect China not to devalue its currency forever since the devaluation of East Asian currencies has effectively revalued upwards the Yuan and rendered the country (China) less competitive.

Countries sometimes devalue their currencies to make their exports more competitive, but China did not take this path.

"The Yuan can actually be devalued a little without affecting the economies of the East Asian countries.

"But, I thank the Chinese government for holding steadfastly to its promise not to devalue the Yuan. China is a friend indeed, much more than some other co-called friends," he said.

Dr Mahathir said that although the attack on the HKSE failed, the island's economy and reputation was damaged.

THE FOLLOWING IS THE BEST QUOTATIONS AVAILABLE FROM COMMERCIAL BANKS IN KUALA LUMPUR AT 12.00 NOON TODAY, ISSUED BY BANK NEGARA:

(UNITS OF FOREIGN CURRENCY PER UNIT OF MALAYSIAN RINGGIT)

.	(BUYING TT/O.D)	(SELLING O.D)
US DOLLAR:	0.2619	0.2649
POUND STERLING:	0.1619	0.1643
SINGAPORE:	0.4405	0.4470
YEN (100):	29.9850	30.4692

Turning to selective capital controls imposed by Malaysia since Sept 1 last year, the prime minister said the country hoped that it has provided the world with an experience which will be useful for case studies in the management of a country's economy under stress.

"Today, Malaysia's economy is growing again. We believe it is due to the controls we have imposed," he said.

Dr Mahathir said Malaysia will continue with its selective capital controls as long as newly emerging economies and middle income countries remain exposed to destructive currency trading and manipulation by the hedge funds and currency traders as seen in present international financial regime.

Despite repeated calls for the removal of the restriction, he said Malaysia will lift this policy if and when currency trading is rendered less harmful to emerging economies.

"Until then the controls will remain in place and will be defended and kept effective by whatever means that Malaysia has at its disposal," the prime minister said.

"We are doing nobody any harm by our controls. Indeed, we are doing a lot of good to ourselves and I venture to say, to our trading partners, investors and even the world's economy.

"So I hope we will be left to administer our own economy in our own way. No one should tell us when we should lift the controls," he said.

Dr Mahathir pointed out that currency controls imposed by Malaysia was not generally understood by the international community, who based their criticisms more on their textbook models than on proper examination of what Malaysia has done.

He said to understand the measures taken, one must look at the root cause of the financial turmoil which undermined the economy of the country.

"The controls have apparently succeeded in bringing about the recovery of the Malaysian economy.

"Although many still condemn capital controls, others now say that controls can resolve the problems brought about by the rapid devaluation of the currency by currency traders.

"Some even recommend that other countries open to attacks by currency speculators should adopt currency controls," he added.

The prime minister said it was not easy for Malaysia to decide to impose the selective capital controls.

"More than six months of intense debate preceded the decision by the executive committee of the NEAC (National Economic Action Council) to impose controls.

"One member of the executive committee brought up 32 reasons why currency controls would be bad for the country, (that it) would fail. But, the arguments were demolished one by one," he added.

Dr Mahathir said that currency controls meant different things to different people and to the textbook economists, it meant cutting the country off from every kind of financial links with the rest of the world.

"The Malaysian control is not a simple turning your back to the world. Malaysia is a trading nation. Its economic growth and well-being depends largely on its commercial and financial links, including direct foreign investments with the rest of the world," he said.

The prime minister said Malaysia was now in a sound financial position. The economy is growing and many predict it will exceed the one percent Gross Domestic Product (GDP) growth estimated by the government.

Dr Mahathir said ringgit was still pegged at RM3.80 per US dollar even though currencies of neighbouring countries have strengthened further against the greenback and therefore against the ringgit.

But Malaysia does not want to change the exchange rate because this will upset the business transactions and profit forecasts, he said.

"With government in control of the exchange rate, we can easily enrich ourselves by strengthening the ringgit, even up to the pre-turmoil level of RM2.50 to the US dollar.

"But the downside to this is lesser competitiveness of our exports and therefore less foreign and domestic investments for export industries.

"The power to change exchange rates must be used judiciously or the economy would be damaged," the prime minister said. -- BERNAMA

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