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Malaysia has not gone 'kaput', says Dr M (HL)

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KUALA LUMPUR, Thurs. - Datuk Seri Dr Mahathir Mohamad remains upbeat about Malaysia's chosen economic path, saying the country has not "kaput" as some had predicted it would be, the ringgit is "rock solid" and the stock market is poised to go up.

The Prime Minister told an international symposium today that selective capital controls had helped in the country's economic recovery without saddling future generations with huge debts and without having to "kiss anyone's feet".

He repeated his view that a free market could function without currency trading with no adverse effect on real trade.

Later at a question-and-answer session, Dr Mahathir, who is a medical doctor by training, quipped that currency trading was "a gangrene that should be chopped off".

In his speech, Dr Mahathir also took a swipe at some foreign media reports on Malaysia's selective capital controls highlighting, among others, the "great economist Milton Friedman" telling the world that Malaysia's move was the "worst possible choice".

The Prime Minister's speech entitled "Why Malaysia's selective currency controls are necessary and why they have worked" was at a symposium on the first anniversary of the capital controls.

Among those present were "Mr Yen" Dr Eisuke Sakakibara, who is now special adviser to the Japanese Finance Minister, former German Vice Minister Dr Heiner Flassbeck and World Bank senior adviser Amar Bhattacharya.

The Prime Minister gave a detailed account of events leading to Sept 1, saying the decision to abandon 30 years of committed currency orthodoxy was made on Aug 6 last year.

This came "after months of detailed discussion and more than two dozen meetings".

Dr Mahathir mentioned Malaysia's "single-most devastating mistake" of cutting government fiscal spending by 21 per cent and how the International Monetary Fund had not done anything worthwhile for other beleaguered economies in East Asia.

He said gloomy prediction that followed pointed to a massive capital flight, rush for US dollars, high interest rates, rampant corruption, an unstable ringgit which would be forced to devalue and black market in every nook and corner.

"Needless to say, the stock market would go into a further tailspin.

"Malaysian shares will not be worth one sen," he said.

Now, the strong but selective currency controls introduced 366 days ago had borne fruit, he added.

Dr Mahathir said the controls had been successful because, among others, it was a soft system which was not draconian, heavy-fisted or punishing; the country's export drive was successful and that the move was to guarantee stability of the ringgit and not its value.

Responding to arguments that IMF-assisted economies have done as well as Malaysia without having to resort to currency controls, Dr Mahathir said the country did it without massive debt or auctioning off of "precious" corporations to foreigners at fire-sale prices. "And without having to bend and to bow to anyone, without having to kiss anyone's feet."

He said Malaysia has now received the nicest praises, sometimes, from

the most unlikely places.

He said external factors had helped a great deal. "The hedge funds have taken a hasty and forced retreat after the LTCM (Long Term Credit Management hedge fund) fiasco.

"Their bankers and bankrollers have become much more cautious.

"The currency stability in East Asia and the economic recovery of the East Asian economies has been a great help."

Dr Mahathir said the Composite Index of the Kuala Lumpur Stock Exchange (which traces the performance of the 100-quality counters) had shot up from the 302-mark in August last year to over 870 by the first week of July this year.

"It has since corrected. I have every confidence that it will shortly begin its upward march once again."