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PM-EXCHANGE CONTROLS

PM REITERATES THAT CAPITAL COBNTROLS WILL NOT BE DROPPED

KUALA LUMPUR, Sept 2 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad again reiterated that capital controls will not be dropped as they had not done anybody any harm.

He said he could not understand why (some) people are so worried about them.

Speaking at a press conference after having spoken at an international symposium on currency controls and Asian monetary co-operation here today, he said the recovery of other countries was not due to their following the International Monetary Fund's (IMF) advice but had instead gone against it.

The IMF had suggested that interest rates be increased and spending be reduced but these countries subsequently reduced interest rates and made more money available instead, he said.

They did not restructure the way they were asked and their corporations were not dissolved, Dr Mahathir said.

The prime minister said after the Long Term Capital Management (LTCM) fiasco, banks were more cautious in lending money to hedge funds.

As a result, he said they were not able to depress currencies at will as they used to and as such, these currencies were no longer threatened like before.

As for Malaysia, the prime minister said he did not expect the speed of recovery to be that fast.

Malaysia's gross domestic product for the second quarter of this year grew by 4.1 percent compared with minus 5.2 percent in the same period of last year.

Dr Mahathir said the improvement in the country's foreign reserves, exports and stock market showed that Malaysia had taken the right step.

Stressing that a stable currency is more important than the actual rate of the ringgit, he added that this is because a stable currency and exchange rate is good for business.

As a result, corporations not need hedge against rate fluctuations which is actually the cost of doing business, he said.

In view of this, Dr Mahathir said the government would not review its peg (of RM3.80 to one US dollar) unless currencies of Malaysia's neighbours dropped by more than 100 percent, which made them more competitive.

However, this would not be considered until the government decided on other measures.

Dr Mahathir also said Malaysia's recovery is not due entirely to exchange rate controls but is also due to other measures.

For example, the government helped to reduce the property overhang by having (property) fairs, promoting the sale of cars as well as reducing imports of expensive items.

As for the stock market's performance, he said he is not too worried over its present movements.

The Kuala Lumpur Stock Exchange's Composite Index was hovering between the 740 and around the 753-point levels this morning.

"But it is more worrisome if it (the stock market) rises to a level that does not reflect the actual asset value of companies," he said.

During a question and answer session after the press conference, Dr Mahathir was asked on reforms to accelerate the Asian economic recovery.

"Please try and remember that reforms would not happen overnight. Quick reforms might produce bad results," he said.

Citing the example of China and Russia, he said both countries tried to reform, moving away from the command control economy to a free economy,

However, he said during his recent visit to the Far Eastern part of Russia, he found out that the people there were suffering even more now than when they were under Communist rule.

"They do not know how to handle the free market...they used to receive orders from Moscow. They do not know how much to produce."

As a result, thousands of workers had to be laid off, with some of them left with nothing to eat, he added.

On the other hand, China, which adopted Communism, did not dismantle its political system but dismantled its command economy slowly, he said. As a result, China has grown in the past few years.

"We will not forget to look at reforms but we will study...in the meantime, don't rush us. Our economy is recovering," Dr Mahathir said.

During the Q&A, Sg Way Corporate Advisor, Tan Sri Ramon Navaratnam, asked this question: "If hedge funds operations cannot be controlled by rich countries, and if they would not do it, should we wait for financial architecture reforms or whisper quietly to each other to start a system to curb this virus of gangrene to protect ourselves?"

Dr Mahathir replied that the countries of the South were always indebted to the countries of the North. "As much as we like to whisper, the capacity is not there," he said.

"I would not try currency controls unless there are strong reserves and trade surplus," he said, adding that Malaysia did not squander its reserves to strengthen the ringgit.

He said most countries of the South were not in the position to do that without the consent of their mentors.

Dr Mahathir again lambasted currency manipulators for not being transparent and they did not even pay taxes to Thailand, Indonesia or Malaysia which had been affected by the currency turmoil.

"Currency trading is 20 times more bigger than the world trade but can anybody tell me how many people benefited from currency trading?" he asked.

Dr Mahathir added, "Speculators do not care about people but only profits. Very rich people are impoverishing many millions of people."

On the Asian Monetary Fund, he said such a fund would benefit the region but unfortunately the idea was shut down because it would undermine the IMF.

He said it would appear that the IMF's power has to be sustained. --

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