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Results of controls very gratifying: PM

Hardev Kaur in Davos

DAVOS, Fri: Malaysia is bouncing back from the brink. The results of the selective capital controls imposed last September "have been very gratifying" and there is no reason to remove them now, Prime Minister Datuk Seri Dr Mahathir Mohamad says.

Businesses have been revived and are doing well. Share prices have gone up, non-performing loans (NPLs) are falling and companies and banks are healthy again, he said.

In a luncheon address at the World Economic Forum entitled "Malaysia: Bouncing back from the brink", the Prime Minister said the repatriation of ringgit assets from abroad has enabled the Government to recapitalise the banks and purchase NPLs without having to depend on foreign loans.

Retrenchment is minimal. In fact, the country is still considered to be enjoying full employment. Inflation is only at 1.5 per cent above the average yearly rate. There is no shortage of food or medicine or fuel. The supermarkets are well stocked, there are no riots and people can move about anywhere in the country safely.

In addition, whereas for almost a decade there was a deficit in the balance of payment, there is now a huge surplus. Reserves have shot up to US\$27 billion (US\$1 = RM3.80) from US\$20 billion between September and December, which are sufficient to sustain over five months of retained imports.

The stock market has risen from a low of 260 to about 600 points now. Companies are able to service loans and borrow again and businesses have been largely revived.

Property and motor vehicle sales have also improved significantly. In short, all indicators point to an economic recovery.

Even so Malaysia is a small trading nation. The extent of its rebound hinges on the world's economy. Malaysia will not recover fully if the world does not recover, and "it (the world) will not recover if it regards capitalism as a religion", Dr Mahathir said.

While there may be other reasons for the recovery in Malaysia, there can be no doubt that currency and capital controls play a major role. It cannot be a coincidence that the healthy economic indicators began to show almost immediately after controls were imposed, he said.

Those who did not condemn the controls outright have "asked us when we would stop? They admit that controls have helped to stabilise and revive the Malaysian economy but they insist that they are retrogressive steps. Now that stability has been achieved the controls should be removed".

The answer is "we see no reason to remove them now", the Prime Minister said. The experience of Latin American countries show that as soon as their economies recover from the effects of attacks on their currencies, the currency traders would be back to launch another attack, and with equally disastrous results.

Clearly, as long as the international financial regime allows the currency traders to devalue currencies, there is no guarantee that they will cease and desist simply because financial reforms have been carried out faithfully.

"The currency traders are not interested in the good behaviour of governments. They are only interested in there being sufficient wealth to rob. Countries with worse governments are left free of attacks if they are too poor to be robbed through currency devaluation.

"The controls will therefore remain in place until the international community devises a new financial regime which curbs the activities of currency traders," Dr Mahathir said.

No country, not even the great US, can withstand the onslaught of currency traders. The US will similarly go under if the dollar is devalued by 50 per cent and the Dow Jones index plummets to 2,000 points.

In Malaysia, its currency was devalued by 80 per cent at one time and the stock market index sank to 260 from 1,200 points, wiping out almost US\$300 billion in market capitalisation.

Furthermore, the International Monetary Fund (IMF) used "its Malaysian cronies" to force interest rates higher, to squeeze credit and shorten the period for declaring loans as non-performing to three months, from six months previously.

"It was suggested that high interest rates would keep our money out of the hands of the currency traders. Instead it flowed massively to Singapore, where even higher interest rates were offered."

Dr Mahathir said the currency traders needed to borrow the money only for a short period and therefore did not mind the high interest rates. They kept on devaluing the currency while Malaysia ran desperately short of credit.

As a result, the economy went into a tailspin. The foreign observers were happily predicting that Malaysia would soon seek IMF loans and accept IMF controls. "That means Malaysia must allow foreigners to take over Malaysian banks, privatized utilities and businesses. The longer Malaysia balked, the lower the shares would fall and the cheaper it would be for foreigners to pick up the distressed Malaysian corporations."

In explaining the reasons for Malaysia's selective currency controls, he said the trading of Malaysian securities in Singapore had a big impact on the Kuala Lumpur Stock Exchange (KLSE).

Short-selling in Singapore rapidly pushed down KLSE share prices, causing distress to Malaysian banks and corporations.

"Trading (of Malaysian securities) in Singapore had to be stopped, or Malaysian banks and companies would go bankrupt and we would be forced to let foreigners take over all our businesses. We Malaysians would then be mere workers in foreign-owned companies."

Dr Mahathir invited his audience to Malaysia to see for themselves whether the controls had harmed the country. Ironically, in the Information Age the only way to get real information is to go and see for yourself, he said.

"Talk to the average Malaysians, not just to the few who are anti-Government. Find out if the people are interested in rioting and overthrowing the Government. Meet the managers of 100 per cent foreign-owned industries and ask them how they are doing."

What is worse is that apart from currency traders and stock market raiders, Malaysia also had to contend with a hostile Western media.

"They distort all reports on Malaysia ... if you depend on them you will never know the truth. They are not above fabricating stories if they are against you. And they don't like countries that do not 'kowtow' to them," he said.

"They deny others free speech while they preach the sanctity of free speech for themselves."

There have been cancellations by hundreds of tourists because Malaysia was described by the Western media as "a war zone", Dr Mahathir said.

"Power, it seems, has corrupted the press."

Malaysia has faced "three great crises" since World War II, he said.

First, the war against the communist guerillas, then the race riots in 1969 and now the financial and economic crisis.

Just two weeks before the crisis erupted, Malaysia was held up by IMF managing director Michel Camdessus as "a good example where the authorities are well aware of the challenges of managing the pressures that result from high growth and of maintaining a sound financial system amid capital flows and a booming property market".

Yet, the Prime Minister said, the country went into financial turmoil together with other East Asian countries as its currency was attacked by currency traders.

Instead of blaming these currency manipulators, the Government was blamed. The governments of East Asia were all said to be corrupt, to practise cronyism and nepotism and were not transparent, conveniently disregarding the fact that they were able to develop their countries so fast that they were described as "miracle economies".

"We are not taken in by claims that the market is disciplining governments," Dr Mahathir said. If there is no money to be made, they would not care less if these governments were run by bandits.

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