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Yuan devaluation now not harmful: PM

A SLIGHT devaluation of the Chinese yuan now will not adversely affect East Asian economies, Prime Minister Datuk Seri Dr Mahathir Mohamad says. The devaluation of the currencies of East Asia has effectively revalued the yuan, rendering China less competitive.

It is not fair to expect China not to devalue the yuan forever, Dr Mahathir said, noting that "while China has helped economies in the region recover by not devaluing the yuan, the Chinese currency has become more expensive as a result of the devaluations of the other Asian economies". Had the yuan been freely convertible, currency traders would have attacked it and plunged China and East Asia into an even worse turmoil and recession, the Prime Minister said in his monthly column in the Japanese daily, Mainichi Shimbun.

"As it is, they tried to attack Hong Kong instead, in an effort to destabilise China. The Hong Kong Government departed from its laissez faire policy and defended the stock market strongly.

"The attack failed but Hong Kong's economy and its reputation has been damaged," Dr Mahathir said.

He thanked Beijing for "holding steadfastly to its promise not to devalue the yuan...China is a friend indeed, much more so than some other so-called friends".

On the Malaysian economy, Dr Mahathir said indications are the economy is improving rapidly and is expected to achieve the targeted 1 per cent gross domestic product growth this year.

"It is expected that the growth in year 2000 will be around 5 per cent," he said, adding that the rebound is due to the selective capital controls Malaysia had imposed last September.

"But our detractors disagree and point out that the economies of other East Asian countries are also recovering.

"They say that even without controls, Malaysia would recover," he said.

The fact is East Asian economies are recovering because the currency traders stopped manipulating the region's currencies.

The economies of South Korea and Thailand have recovered and even the rupiah has strengthened, "but Malaysia's recovery is earlier and stronger," Dr Mahathir said.

When Malaysia imposed the exchange controls, there was fear that other countries would follow suit if the attacks continued.

It was also at this time that the US-based Long Term Capital Management Fund collapsed, threatening to destabilise the financial system of the rich countries, he added.

Malaysia will not lift the controls for now.

"If and when currency trading is rendered less harmful to emerging economies, Malaysia will lift its selective capital controls. Until then, the controls will remain in place and will be defended and kept effective by whatever means that Malaysia has at its disposal.

"No one should tell us when we should lift the controls," he said.

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