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PM: Recognise hedge funds as culprits behind Asian crisis

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PRIME Minister Datuk Seri Dr Mahathir Mohamad says hedge funds should be recognised as the culprits behind the recent regional economic turmoil, so that their activities can be regulated to prevent similar crisis from occurring.

The reason for the economic and financial turmoil is entirely due to the manipulations by the hedge funds, he said. They made use of the free unregulated markets to make money for themselves alone.

"In the process real businesses, including the tourist business, were strangled. Large amounts of money were lost through no fault of the businesses," Dr Mahathir said when opening the Millennium Leaders Summit for the International Meeting Industry in Kuala Lumpur yesterday.

He said while speculation is a form of betting with all the risk involved, manipulation of exchange rates by huge hedge funds through their own buying and selling involved hardly any risk. A return of 30 per cent is promised to the very rich investors in the hedge funds.

"We think that globalisation is not inherently destructive. What is destructive is the abuses which globalisation makes possible," he added.

Dr Mahathir said the Asian financial crisis is a clear example of "a bad encounter" with globalisation. With capital rapidly crossing and re-crossing borders bringing along exchange rate instability, countries lost money, businesses were destabilised and masses of people became poor.

"The so-called contagion effect brought down even the economies with very sound finance. Countries situated thousands of miles away were not spared. The world's economy went into a tailspin," he added.

Dr Mahathir said the only people profiting from this particular manifestation of globalisation were the currency manipulators.

"For a long time currencies were traded and capital flowed across borders. But the destabilisation was minimal. Hedging made it possible to reduce the risks and the cost of exchange rate fluctuation.

"But the hedge funds discovered that they could actually influence the fluctuations in exchange rates. Since they have access to very large capital through leveraging they can push down or push up the value of currencies simply by going through the motion of selling or buying the particular currency," he said.

Dr Mahathir said unfortunately the world is not yet ready to name hedge funds as the culprits and to act against them. Until then countries have to apply home-grown remedies in order to provide a stable financial and economic environment for business to be done.

Dr Mahathir said in Malaysia's case the exchange rate has been fixed at RM3.80 to the US dollar.

"People doing business in Malaysia can be sure that their budgets can be quite precise and free from the need to make adjustments every now and again. They will not be burdened by the cost of hedging," he added.

The four-day summit brings together leaders in the meetings, incentives, conventions and exhibitions industry from 21 countries.

Speaking at a press conference later, Meeting Professionals International president, Mr Vito Marzo, said the fixed exchange rate has ensured that the local currency kept in the country can be reinvested in productive activities.

International Association of Convention and Visitor Bureaus president, Mr Edward Nielsen meanwhile, said the exchange rate predictability is very

critical to organisers planning ahead to have meetings and conventions in Malaysia.

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