

'Mechanism to fix forex rate can be developed'

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From LOKMAN MANSOR

TOKYO, Thurs: Prime Minister Datuk Seri Dr Mahathir Mohamad says a mechanism for fixing exchange rates can be developed to enable regulated devaluation of the currencies of weak economies and revaluation of the strong.

"Surely the great economists and financial experts of the world can come up with a good mechanism that will largely avoid economic turmoil," he said.

"We can still have world trade without the currency traders. Indeed we can still have world trade with fixed exchange rates. That was what the Bretton Woods was all about, the fixing of exchange rates," the Prime Minister said.

Dr Mahathir was speaking on "Globalisation, Global Community and the United Nations" at the United Nations (UN) University's U Thant Distinguished Lecture

Series here today.

Asked by a member of the audience if it would be faster to start with a regionally fixed exchange rate mechanism first, the Prime Minister said: "Malaysia can move fast (on this) provided there are no outside influences. We are ready to have some kind of safety net for countries in Asia and I think if we work together we can help each other in times of need.

"Exchange rate is a global

thing and needs to have some understanding among the global community. It is something worth considering," he said, adding that the idea of an Asian Monetary Fund would help in establishing that sort of mechanism.

He said Malaysia fixed its exchange rate to counter the manipulations of the currency traders and to stop the slide of the country to bankruptcy.

"There were all sorts of

See Page 2, Col. 1

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By - 8 JUN 2001

developed: Dr M

FROM PAGE ONE

dire prediction. Malaysia's economy would collapse totally. It would be a world pariah, shunned by all investors. It would be forced to go with a begging bowl in hand for help. Well, nothing of that sort has happened," he said.

Malaysia's economy grew 8.5 per cent in 2000. Growth this year will be much lower, not due to selective capital controls or fixed exchange rates, but due to the slowdown of the US economy which takes up 20 per cent of Malaysia's exports.

To another question, Dr Mahathir said he disagreed with the view that a fixed exchange rate causes the Malaysian economy to lose its competitiveness.

"Our economic performance is better than some of our neighbours'. We are politically and economically more stable. If we devalue the currency, then the cost of imports will go up. Exports may be cheaper but only for a short time, and we won't get the full advantage of the amount devalued.

"Supposing we devalue the ringgit by 20 per cent, the gain from that will be about 5 per cent, and that is simply because we have a lot of imported components in all our exports and those imported components will be more costly if our currency is devalued.

"At the same time, after a short while, wages will have to go up because people will find that the cost of living has gone up because of the higher price of imported goods. In the end, the advantage of devaluation is not there.

"Neither is there an advantage from revaluation, because while imports will be cheaper, exports will be more costly. We don't play around with this exchange rate just like that because of what is happening with our competitors. We do careful calculations," he said.

The Prime Minister added: "Of course, there may be instances when we may have to devalue our currency, but not at the moment. We have no difficulty competing with our neighbours because we have other advantages. We are much more efficient and our productivity is quite high."

while borders can be brought down to make the world more global, countries can be selective in terms of trade items, time frame, and scale of deregularisation.

"There is really no need to bring down borders for everything and everyone at a fixed time, nor should there be zero duty for everything," he said.

The Prime Minister said giant corporations or monopolies do not always bring benefits through economies of scale. Organisations which are too big lose their efficiency, become arrogant and will not care about the side effects of whatever they do.

"There should therefore be big and small corporations and banks which can operate both nationally and internationally. The small must be protected to a certain extent, given the same kind of handicaps that golfers are familiar with so that not only will the playing field be level but the disparity in the sizes of the players will be compensated.

"Governments must be allowed to admit or reject the super corporations and banks access to their countries. But they must justify this," he said.

On the UN, Dr Mahathir said the institution is not what it was originally expected to be, where the superpowers given veto rights do not exercise that right for the good of all.

"Under the aegis of the UN the World Trade Organisation was formed. There we thought we could hammer out a free trade system that will be fair to all.

"But we are finding that it is an instrument for forcing upon the world the policies of the rich, designed to enrich the rich further," he said.

"Might it seems is still right. We have not progressed far since the first caveman bludgeoned his rival and grabbed his wife. Until there is reform to the UN system this primitive state of affairs is going to continue. Certainly it will in so far as world trade is concerned, in so far as currency manipulation is concerned," he added.

The lecture series is in honour of U Thant, UN Secretary-General from 1961 to 1971, who had officially proposed the setting up of the