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GOVT-MARKET TO MAHATHIR-CAPITAL
CAPITAL MARKET NEEDS THE GOVT, SAYS MAHATHIR

KUALA LUMPUR, March 5 (Bernama) -- The government has a role to play albeit the current thinking that governments are superfluous and that the capital market should be left to regulate itself, said Prime Minister Datuk Seri Dr. Mahathir Mohamad.

"The market is not free from the corruption of power if power is given to it exclusively," he said in his speech at the Kuala Lumpur Stock Exchange Corporate Awards 2001 held here today.

The Prime Minister said there were cases which had made mockery of the belief that markets could regulate themselves and even discipline governments. "The market needs the government because the market is all about making profits while the government is concerned about the well-being of the people and the country," he said.

Citing examples of notions gone wrong, he pointed out the case of the Long Term Capital Management (LTCM) in the US which nearly brought the financial state of the whole country into the brink of disaster.

The government had to move in to prevent this happening, he added.

He also pointed out the more recent case of Enron Corporation where there had been massive fraud and fixing of accounts.

"Governments too can be corrupted but in a democratic system, governments which are corrupted would not stay in power for long," Mahathir said.

He said a corruption-free government and properly regulated and transparent private sector would give the best results. It would ensure rapid growth of a country.

"But this is too much to expect. The government will have to be checked by the private sector through refusal to invest and the private sector will have to endure the regulations and supervision of the government," he added.

The Prime Minister said that this did not mean that the private sector should not try to regulate itself or establish high ethical standards and to discipline the recalcitrant.

It has become the duty of the government to set standards and to regulate business practices, he said.

The government is aware of the need to avoid putting corporations into "straight jackets" and would want to minimise regulation as much as possible, he added.

With the cooperation of the business community this can be done, the Prime Minister assured.

It is for this reason that the government supports efforts to encourage good conduct on the part of the boards of directors, corporate managers and management, he said.

This can be done in ways of conferring awards and recognition, he added.

The last financial crisis has showed up the weaknesses and the malpractices of many public companies and yet some companies have been so well managed that the crisis hardly affected them, he said.

The Prime Minister said the crisis has thus shown the importance of good management.

"Good management can be mastered by all. It requires honesty and skills which can be easily learnt. Provided that the rules, statutory or otherwise, are religiously followed, good management should result,"

Mahathir said.

Unfortunately, market competitiveness and profitability require innovation and risk taking, he added.

He said the rules and standard practices may then be ignored and risks taken. Sometimes actual fraud may be committed in the belief that the return would cover the departure from acceptable practices, he said.

When there is a crisis the expected results may fail to materialise and losses would reveal the malpractices involved.

Supervision over management is important. The internal audit, the board of directors and periodical audit by the professional accountants play a pertinent role in ensuring ethical management, he added.

Mahathir said innovative action can still be taken but it should be in a definable way and within the regulations provided.

The Prime Minister said the government had stepped in to rehabilitate several major public corporations following the difficulties faced mainly in overcoming loans problems.

He said if there had been any bailout at all, it was the bailout of the workers, the minority shareholders and the public in general.

Now, there is not much criticism of the Malaysian government's action, he added.

"But when the same thing happens in countries associated with the foreign press, the need for the government to step in and rescue seems less like a bailout," he added.

The Prime Minister said in a crisis, even the best managed companies can fail. Currency devaluation and the collapse of share prices cannot but affect business adversely, he said.

"It is easy to say let the fittest survive and let the failed businesses be gobbled up by people from countries not affected by the crisis at a fraction of the value.

"But the loss of wealth in a crisis is real and affects the economy of the country and its future. Rebuilding an economy is not a matter of adjusting interest rate alone," he said.

A whole lot of measures have to be taken by the government and the business community before the process of recovery can really begin, he added. -- BERNAMA

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