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`Govt intervention necessary to protect local interests'

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NEW YORK, Sun: Governments have a duty to their citizens, workers and local businesses, and their intervention is a necessary part of business even in a free-trade environment.

Prime Minister Datuk Seri Dr Mahathir Mohamad noted that international businesses have pressured their governments to push for globalisation.

"If governments should not intervene, then the free traders should go about establishing globalisation purely by their own efforts," he said in his address to the World Economic Forum (WEF) at the Waldorf Astoria.

He pointed out that businesses demanded for international agreements, a rule-based trading system, and government enforcement of treaties and laws. "Globalisation actually involves more government intervention than less, that is, the powerful governments". There is also "a peculiar assumption" that the world must be made the cash cow of the investors exclusively, whatever the cost. "There is no reason why the countries and the people who suffer should subscribe to this assumption."

The 3,000 participants, comprising government leaders, politicians, chief executive officers, analysts, fund managers, religious leaders and non-governmental organisations, were told in no uncertain terms that "countries do not exist solely to enrich investors".

Delivering his address on "Ensuring Capital Flows In a Risk Averse Environment" to the plenary session of the WEF, Dr Mahathir said capital flows helped the economy of a country only when the flows were inwards.

"When capital is suddenly pulled out for whatever reason, the effect on the country's economy can be disastrous. Admittedly, capital will not flow in if it cannot get free exit. But speculative or manipulative capital flows benefit only the capitalists," he said. Capital still flows in Malaysia's risk minimal environment, that is, serious capital intent on making long-term investments for the production of goods and services.

The flow may be smaller but "it is much less disruptive", Dr Mahathir said.

In fact, the economy benefits steadily from this serious flow even when the capital flows out. There are no sudden twists and turns, no distortions. Though dull and unexciting perhaps, it was good for developing countries, he said.

Malaysia finds no difficulty in managing capital flows of the serious kind in its risk minimal environment. The economy has suffered from the economic downturn in the US because the country is Malaysia's biggest trading partner.

"Of course, after September 11 things got worse but Malaysia has suffered less than other countries exposed to financial and market risks. We will survive and when the world learns how to manage terrorists, we expect to recover faster than others, God willing," he added.

The Prime Minister also explained the various policies, initiatives and measures that the Government had implemented to cushion the domestic economy from the adverse external environment.

He also spoke of the selective capital controls that were put in place in September 1998 and the effects on businesses, the capital and currency markets.

Speculators and manipulators did not like the fixed exchange rate or the absence of uncertainty but "serious businessmen and serious investors love it". And even when the restrictions were removed and foreigners were

allowed to take out their investments in the share market, capital did not suddenly flow out. Businesses, including exports, quickly picked up and the Kuala Lumpur Stock Exchange's Composite Index (KLCI) rose from 262 points to nearly 900 points, reducing non-performing loans, increasing market capitalisation and relieving pressure on Malaysian businesses.

"After all, the restriction on taking out capital after dumping shares had resulted in almost 200 per cent capital appreciation during the one year. When the restrictions were lifted, they did not sell their shares. Perhaps they expected the shares to appreciate further," Dr Mahathir said.

Today the, KLCI is well above the disastrous levels of the currency crisis in 1997.

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