

# Dr M sees currency peg as long-term solution

NS7 21 JUL 2003

**PUTRAJAYA, Sun.** — Malaysia's five-year-old currency peg is set to be a legacy of outgoing Prime Minister Datuk Seri Dr Mahathir Mohamad, who describes it as a "long-term solution" to fight manipulation by rogue currency traders.

In an interview, Dr Mahathir outlined his economic vision for Malaysia, pledged no government intervention for a second round of banking mergers and said decades-old economic privileges for the majority Malays were likely to stay for a long time.

The veteran leader, who will retire in October, reflected on how he grappled with what he called the toughest moments in his 22 years in office — the 1997/98 Asian financial crisis when he bucked conventional wisdom by instituting capital controls and fixing the ringgit at 3.80 to the dollar.

Dr Mahathir, who is also Finance Minister, said the currency peg had "saved Malaysia from a lot of trouble" and there was no plan to float the ringgit again.

"We think that the ringgit peg has done very well for us. We will not remove it but we may change the value of the currency under certain circumstances," he said.

"Why do you want a system that you know has destroyed the economies of whole regions?"

"Surely a fixed exchange rate is a much better thing than a floating exchange rate which is subjected to manipulation ... it is a long-term solution for the world."

He rejected the theory of free markets disciplining governments as "stupid talk" because there were "a lot of crooks in the market".

If the 77-year-old leader had his way, it would not be the US dollar but gold that would be the anchor for the ringgit.

Because the exchange rate was an artificial thing and wild fluctuations in the dollar affected the ringgit's value, "you must have something that has an intrinsic value. We suggested that it should be gold", he said.

On the banking sector, Dr Mahathir said the Government would let banks chart new mergers after forcing through a consolidation two years ago to merge 54 institutions into 10 banking groups.

"The banks will decide whether they want to merge or not. We don't see any need for us to press them again but they will soon learn that

they need to be of some size in order to be more efficient," he said.

Even before market liberalisation in 2007, foreign banks in Malaysia were already doing more business than local banks, he noted.

Citibank, for example, was much bigger than top local bank Maybank even though it operated only from Kuala Lumpur and was barred from opening branches in villages, he said.

So how many local banks should be left to be competitive?

"That is very difficult for me to say. We will see how we can manage this thing but we are not too happy about the idea of a huge foreign bank coming to Malaysia and dominating everything," he said.

Dr Mahathir believes the economy is back "on the right track" after rebounding from a recession in 1998 but he said the crisis had set back the Government's target of putting 30 per cent of economic wealth into the hands of Malays under the 33-year-old New Economic Policy.

"We have now only achieved about 19 per cent. It used to be 20 per cent but it has shrunk because of the economic crisis, so we still have a long way to go," he said.

"As the situation becomes suitable for the removal of some of the privileges or protection that we give, we will remove them but it will be very unwise to set a date and not care for the actual situation."

Dr Mahathir acknowledged that foreign investment was not recovering quickly and manufacturers in Malaysia and elsewhere were relocating to low-cost nations like Thailand and China.

Approved manufacturing investment last year shrank for the second straight year, by 36 per cent to RM16.53 billion, far from the Government's target of RM25 billion a year.

"People are not really investing now. They are not very certain about the future of the world. They are not putting money the way they used to."

So Malaysia had focused on nurturing local investment and promoting less labour-intensive areas such as information technology, the services sector and education, he said.

Dr Mahathir, who transformed Malaysia into an industrial powerhouse, has tried to set the country on the path towards a knowledge-based economy, but he said manufacturing was expected to remain the driving force. — AFP