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IMF-MAHATHIR
IMF PAYS TRIBUTE TO DR MAHATHIR

PUTRAJAYA, Sept 2 (Bernama) -- International Monetary Fund (IMF) managing director, Dr Horst Kohler, today paid tribute to the leadership of Prime Minister Datuk Seri Dr Mahathir Mohamad for having pursued economic growth alongside social equity objectives.

He said it was a recipe which ensured peace and political stability for Malaysia and enabled it to take its place among the advanced emerging economies.

He also commended Dr Mahathir for taking the decision to impose capital controls in 1998 and peg the ringgit against the US dollar at RM3.80 to insulate the currency and economy, which at that time was thought to be controversial.

Also, in what is a recognition of Malaysia's New Economic Policy (NEP), which guaranteed the equitable distribution of economic wealth among the country's multi-ethnic populace, Dr Kohler said that at the end, "it is not just high growth rates but a mix of growth and social equity which is the outcome in this country".

"If Malaysia makes further progress in this combination of growth with equity as well as its open-oriented economy, I have no doubt Malaysia can be an example of a nation able to preserve its national identity, achieve political stability through openness, trade and external economic linkages," he said during a brief meeting with business editors from the Malaysian media here today.

Polish-born Dr Kohler, who is here at the invitation of Dr Mahathir when they met at the Group of Eight (G8) Summit in Evian, France, last June, said: "Economics is important, but economics are part of a broader concept to improve living standards and there has to be equity."

In urging to keep the country's economy open, he said in its zest to

promote Islamic banking and finance, Malaysia should do it "without building up new fences against the rest of the world or other cultures".

"Without strong external trade and openness with the rest of the world, Malaysia will not be able to improve its living standards," said Dr Kohler, who met Bank Negara governor, Tan Sri Dr Zeti Akhtar Aziz, at a breakfast meeting and thereafter with government officials.

Asked on the IMF's views five years on after Malaysia's imposition of capital controls and pegging of the ringgit, he said: "With hindsight, we have to recognise the good performance of the economy. Therefore, the decisions had not been wrong.

"Dr Mahathir was right as a leader in his responsibility to take action to insulate the economy. But this does not mean that this formula (ringgit peg) forever can't and should not be reviewed.

"I do think that Malaysia, in maturing further, needs to think how flexibility can be built into the system because it will not be able, and for that matter, nobody will be able to define policy systems which are totally free of shocks," Dr Kohler said.

"We need to have shock absorbers. (But) I am not advising Malaysia to give up your peg, this should be a decision for your country," he said.

Dr Kohler, who took over the helm of IMF on May 1, 2000, and was Germany's Deputy Finance Minister from 1990-93, said Malaysia had achieved a lot and that Dr Mahathir's leadership was critical.

"For that, Malaysia deserved recognition at the international level," he said.

He said he shared Dr Mahathir's frank views on the risks of globalisation, which was why it was crucial for the Washington-based IMF to make globalisation work for the benefit of all.

"It is right for globalisation to continue because it has more opportunities but it also has risks and therefore, we should define a policy to enable us to better exploit the opportunity and contain the risks," he said.

"I have respect for your leader and we need to work together to see how

Malaysia can play a stronger role in the search to make globalisation worked for all."

Dr Kohler also said he suggested during a breakfast meeting with Dr Zeti that the IMF and Malaysia should organise a conference or a well-prepared discussion to "go deeper into how we need to differentiate the IMF, its policy advice regarding the financial sector taking into account the development phase of our members, some of which are advanced emerging economies such as Malaysia as well as poor countries".

"This being the case, it is important how we diversify our advise, how we accept diversity not only in cultures and political systems but also in economic models," he said.

"We have to work to create a platform which takes into account vulnerabilities in international financial systems so as to strengthen such systems and at the same time, give member countries that tailored support they need related to their conditions, cultures and their goals," said Dr Kohler.

Asked for his assessment of the Malaysian economy, he said Malaysia had made great progress in strengthening its financial and corporate sector through long hard work.

"But this work should continue, in particular, in identifying vulnerabilities and to this end, we have sent a technical mission comprising experts to work with Bank Negara to identify vulnerabilities in the financial sector," Dr Kohler said.

Besides this, he said there was a need to consolidate further the investment climate in Malaysia and demonstrating that prudence in fiscal policy was sustained.

"Therefore, it is right for the country to move towards a balanced budget in the medium term," he said.

Dr Kohler said the investment climate in terms of legal foundations and fighting corruption, and legal predictability could be further improved.

"That's not a basic weakness here, but still, foreign direct investments are helpful to Malaysia as it catches up with developed countries. FDI's are inevitably going to places where the investment climate

is more attractive than others," he said.

Dr Kohler, who was the president of the European Bank for Reconstruction and Development, which supports former communist states in their move towards market economy and democracy, said that "all improvements through external finance, FDIs and trade is not sound enough in the absence of a strong home base for business".

"In Malaysia, there is now more attention to strengthen small and medium scale industries and efforts to reach out to rural areas ... this is right (and) you need to give it persistent attention," he said.

"We need domestic driven growth, even in advanced countries." --
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MR TJK