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gan in mid-1997, the ringgit exchange rate was RM2.50 to the US dollar, but it would lose half its value by the end of the year.

We did not know who was selling the ringgit nor did we know who they were selling it to. I was told about a man named George Soros who had attacked the British pound and the Italian lira — both England and Italy had a tough time fending off his attacks and their currencies were forcibly devalued.

Not knowing who the currency traders were, I assumed that Soros was one of them. Whoever it was, I was furious. How could outsiders impoverish our country and our people? How could they knowingly and intentionally do such a thing? Even if that was not their main purpose, how could they choose to ruin us as a casual by-product of their own currency trading strategies? It made no sense to me, economically or morally.

Malaysians, particularly the business community, soon felt the effect of devaluation. Importers could not earn enough ringgit to buy the dollars needed to pay for the goods they had purchased from foreign suppliers, leaving them cash-strapped and unable to service their debts. Malaysians who were used to enjoying overseas travel suddenly found foreign trips too expensive.

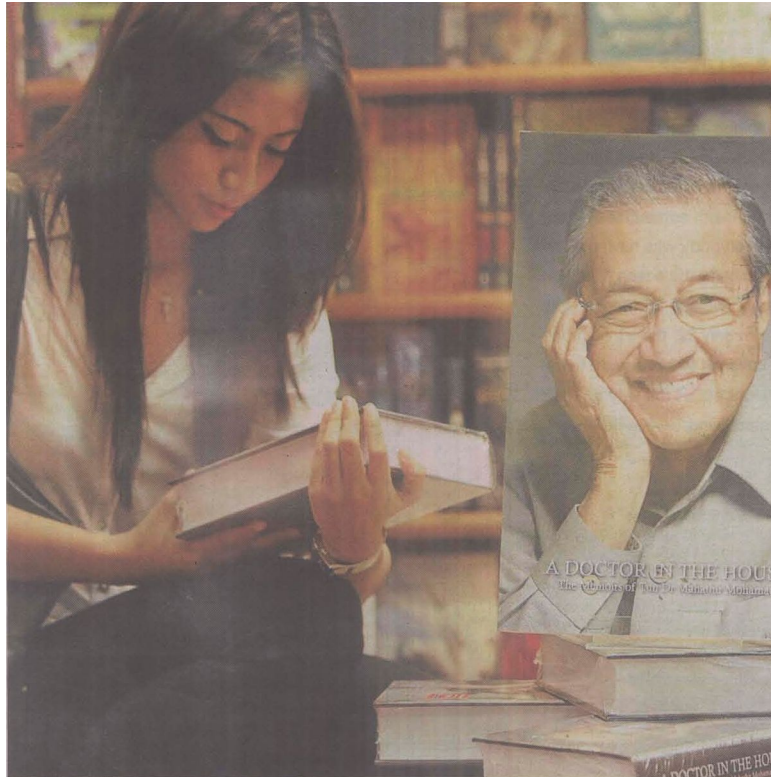
While our exports should have earned us more ringgit since sales were often denominated in US dollars, foreign buyers demanded to pay less. Malaysia's costs, they insisted, had gone down because the value of the ringgit had fallen. But imported raw materials and components were costing more, as were the capital goods. The fall in the ringgit did not make us more competitive, certainly not against our neighbours whose currencies were also devalued.

We felt helpless as the ringgit continued to sink and the economy moved further towards recession. Only recently we had been growing at eight per cent per annum for almost 10 consecutive years, but now we faced the prospect of negative growth. But I could say nothing about the currency traders — every time I made a public statement, the ringgit would immediately fall further.

On June 17, 1997, just before the attack on regional currencies began, International Monetary Fund (IMF) Managing Director Michel Camdessus praised the governor of Bank Negara for a well-managed economy and financial regime at the Los Angeles World Affairs Council.

"Malaysia is a good example of a country where the authorities are well aware of the challenges of managing the pressures that result from high growth and of maintaining a sound financial system amidst substantial capital flows and a booming property market," he said.

Inflation, he had noted, was low and the ringgit had remained at RM2.50 to US\$1 for a long time; it was truly a strong currency, reflecting the sound finances of the



A fan of former prime minister Tun Dr Mahathir Mohamad reading his latest book, 'A Doctor in the House', at a bookstore in Kuala Lumpur recently.

country. But now the same people were saying the economy was overheated and, as a result, the ringgit was reeling under the onslaught of the currency traders. I refused to believe that the depreciation of the ringgit was due to a weak economy or to any loss of market confidence in Malaysia.

I bought books on currency trading to better understand its mechanisms because I believed it was currency trading, not the basic condition of our economy itself or our currency which was affecting the ringgit. I had met Camdessus earlier and he seemed like a nice man. As finance minister and deputy prime minister, Anwar met the IMF head quite often. I asked Anwar to appeal to Camdessus to stop currency trading and argued that it was unnecessary and damaging to the economy of developing countries. I do not know whether Anwar stated my case to Camdessus, but no attempt was made to stop currency trading.

To me, trading in currencies as if they were commodities was absurd. Coffee, sugar, rubber and the like are real commodities and they have all kinds of substantive human uses. But currency is different. It has no value in itself, only in exchange as a way of procuring real commodities. It cannot be used in any other way and cannot be directly consumed.

We are no longer in the Middle Ages, when the European economy did not have any credible currency and traders in the French markets

used Southeast Asian pepper as their money and medium of exchange. Now we use pepper and spices to make our food tasty and we have money to buy the commodities we need.

I remember reading that once, when there was a glut in the coffee market and coffee prices were very low, the Brazilians dumped their coffee beans into the sea to create a shortage and raise the price. But can you dump or burn money in the same way to raise its value? In the case of currency, the situation is actually worse, for there is more money in circulation than there is issued by central banks and currency boards. It is no longer just real money that changes hands during transactions as there are also cheques, credit cards and electronic transfers. The total amount they represent must exceed the total value of currency notes issued and in circulation. Money has, in effect, become virtual.

Looking back now, I suppose I literally took to heart the economists' cliché that money is the lifeblood of the financial and economic system. As a doctor I understood that there is a finite amount of blood circulating in a person's body at any time (although you sometimes have to in-

crease it with a transfusion). But I have learned not to take that medical idea or metaphor literally when it is applied to the economy.

Money is different from debt, as there can be far more debt around than the money in circulation to support and denominate it." Economists think differently from doctors. For them, two plus two can sometimes be more than four.

**"Money is different from debt, as there can be far more debt around than the money in circulation to support and denominate it."**

After the United States emerged from World War 2 as the dominant military and economic power, the world accepted the US dollar as the standard currency in international trade and as its reserve currency. The Bretton Woods Agreement had fixed the US dollar at 35 to one ounce of gold. All other countries then fixed their currencies against the US dollar, which, in effect, meant the value of gold.

The post-war world economy recovered while this regime was in place, but when the US went off the gold standard in 1971, largely to pay for the accumulating costs of the Vietnam War, the world's currencies were destabilised. Market forces would now determine the rates and most currencies would "float" in relation to one another.

I felt that this destroyed the sovereignty of countries and left them at the mercy of the market

and human greed. Greedy people will not take the welfare of others into account; they will certainly not be sensitive to the needs of developing countries. For profit, they will destroy whole countries and impoverish their people.

However, we had to accept the situation despite knowing that market mechanisms and forces could be manipulated. It did not take long for speculators to begin abusing the system. They had invented the short selling of commodities and shares; now, they invented the short selling of currencies.

They made fortunes by bankrupting countries, especially those in the developing world; these were quite literally financial killings. Enterprising people set up hedge funds and invited the rich to subscribe to them. The returns on investments would be far greater than through other channels, but the operations of these funds produced nothing that could be used in the market or for people.

The least that could have been done was to regulate them, but while their promoters kept insisting on transparency in every deal or transaction and in everyone else's plans — for how could serious investors possibly risk their money on anything that was shrouded in secrecy? — the operations of the funds themselves were allowed to remain mysterious. Who the traders were, where they got their money, how much they borrowed, to whom they sold and who bought the currencies that they sold: we did not know the answers to any of these questions. The funds could leverage their capital by as much as 20 times. With them, more than anywhere else in the economy, credit expansion outstripped the supply of money and ceased to have any coherent relation to it. The effect of their operations was devastating.

Camdessus was French and, I heard, a friend of president (Jacques) Chirac. Since I knew Chirac well, I wrote to him about the deprecations of the currency traders and asked him to intercede with Camdessus to stop the trading. Again, during the Commonwealth Heads of Government Meeting in Edinburgh, Scotland, in 1997, I met Tony Blair, who had only just become prime minister of Britain. I explained the effect of currency trading to him at length and asked him to take it up with the IMF, but my efforts came to nothing.

Malaysia had some prior experience in currency trading, in which we had become involved because we needed to ensure that our reserves would not be depleted because of the fluctuations in the currencies we kept. But we only dealt in the currencies of developed countries. We speculated as all in the market did, but we did not manipulate. It was a matter of taking calculated risks, and when one of our speculative ventures failed, we lost a lot of money. After that lesson, we got out of the business.

Part 2 of the book extract continues tomorrow