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they must have acquired their ringgit before selling it in the market.

Nor Mohamed explained to the NEAC that no cash was actually being moved. A million ringgit, even in RM100 bills, would be extremely bulky and would not be easy to transport. Certainly there was no way hundreds of millions or one billion ringgit could be moved around.

The ringgit was legal tender only in Malaysia and it could not be used outside the country. Banks and money changers in other countries may accept the ringgit in exchange for local currency, but only in small amounts. In the end, they must repatriate the notes to Malaysia.

Yet this was clearly not happening — if it were, endless streams of armoured vans would need to travel back and forth constantly between Singapore and Malaysia.

So what money was now being traded? No physical cash was involved, Nor Mohamed explained. Instead, the money was being held in Malaysian banks in cash, mostly in the accounts of the people to whom the money belonged.

I asked Nor Mohamed what happened when the money was bought or sold. Small amounts may be deposited in the banks or taken out in cash, he said, but usually the money was simply credited to the recipient's account or debited from the accounts of the person making the payment.

No cash transaction was involved at all as it was purely a paper transaction and only the figures in the bank books would change. When ringgit trades were made, no money ever left the country or entered it. The process might be slightly more complicated in the case of foreign currency accounts in foreign banks, but even then, the ringgit traded would never leave Malaysia.

I suddenly realised that this must be the way. We had asked Bank Negara to withdraw high denomination notes of RM1,000 to stop people from taking money out of the country. It turned out that the money was actually being held in Malaysian banks in the accounts of foreigners. Since the foreigners owned the money, we could not make use of it.

This was a revelation to me. I was not a banker and I had few dealings with banks. I always made payments by cheque without thinking about how the figures changed in my accounts. My own transactions were small and usually handled by my personal assistant. I was now appalled that I had been spending huge sums of government money without knowing anything about how banks operated.

But from the moment I learnt that traded ringgit never left Malaysia physically, and that sales and purchases simply involved transfers of ownership of money from one account to the other in bank books, I began thinking about how the government might use Bank Negara's control over Malaysia's banks to stop the currency trading.



Billionaire financier and currency trader George Soros has been accused of leading the attack on the ringgit in 1997, which severely damaged the economy.

I believed that many of my NEAC colleagues knew that the financial system generates far more credit than the money that is issued by the central bank, but they did not see how this knowledge might lend itself to instituting government control over currency trading. It may have been good to be ignorant about the financial system, as it allowed me to see with fresh eyes how to frustrate the currency traders.

I asked Nor Mohamed whether the government could order the banks not to transfer ownership when currency traders bought and sold the ringgit. He said it was possible. I mulled things over and — with Daim, Nor Mohamed and the bankers in the NEAC — began to discuss the possibility of blocking the currency traders' access to the ringgit.

At the same time, we would have to put a stop to the buying and selling of Malaysian shares through the Central Limit Order Book or CLOB, the so-called "over-the-counter" stock exchange set up by Singapore to trade in Malaysian stocks after we separated our stock exchanges in 1989.

The Singapore CLOB trading was causing our share prices to drop continuously. Our Composite Index (KLCI) was around 1,200 when the devaluation of the ringgit began. Not wanting to lose the money they had invested in Malaysia, foreign investors stampeded to the exit, selling off their shares and converting the ringgit they received into US dollars or other currencies.

Their sales were causing our share prices to fall further, at one point to below 300. Market cap-

italisation of our stock exchange was now less than one quarter of what it had been before the crisis.

We found that the shares bought through CLOB were all registered in the names of trustee companies. It was completely legal, but when shares were sold within each trustee company, ownership did not change; it remained in the name of the holding trustee companies. There was, therefore, no need to inform the Malaysian Stock Exchange of the transaction.

Still the continuous selling of these Malaysian shares caused their prices to drop. The KLSE could do nothing about CLOB and there was no need to register these transactions with the KLSE so long as they remained on paper with the same trustees.

We had to put a stop to this practice, and so decided that no sale would be recognised unless the real owners of the shares registered with the KLSE. Failing this, the transaction would not be valid and the shares would be legally considered as belonging to the seller.

Once we imposed that condition, it was no longer possible for shares to be traded in CLOB without registering with the KLSE. No one would buy if the shares would not become legally theirs. Therefore, forcing the real owners to register their deals with the KLSE as a

condition of having the acquisitions recognised was able to put a stop to the role of front-man trustees. Everyone had to register with the KLSE. CLOB had no more role in the trading of shares. It had to close.

Meanwhile, we made the decision to peg the ringgit to the US dollar, a move which was sure to be controversial. But we had to determine the exchange rate of the ringgit soon after instructing the banks not to transfer money in their accounts in any transaction.

We also had to be sure we had enough foreign exchange (mainly US dollars) in the banks and at Bank Negara should traders need to pay for their imports. And, of course, we had to ensure that there was enough ringgit in the banks to exchange with foreign currencies at the rate we fixed.

Malaysia had always insisted that the proceeds of the sale of Malaysian products to foreigners must be brought back and deposited in Malaysian banks. Some developing countries, Argentina for example, allow such proceeds to be kept abroad. (In the case of some Middle Eastern states, a vast fund of so-called "petrodollars" was never repatriated but allowed to flow back and forth in search of profitable investments around the world.)

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In our case, this would have resulted in a continuous drain of money out of the country. Without access to the foreign exchange it earned, the country would not be able to pay for imports or repay loans. Because of this practice of repatriating our foreign earnings, Malaysia always had enough foreign exchange for our importers wishing to buy goods or services from abroad.

When the government fixed the exchange rate, it had to be able to guarantee the availability of foreign currencies to pay for those essential imports at the fixed rate.

We might even have enriched ourselves by strengthening the ringgit to its former pre-crisis rate of RM2.50 to one US dollar, as the ringgit had by then recovered somewhat after falling to almost RM5 to the dollar and was then hovering at between RM3.8 and RM4 to one US dollar.

But if the ringgit was too strong because we set the exchange rate too high, Malaysian products would not be able to compete internationally with similar products from Thailand, the Philippines and Indonesia. We had to decide on an exchange rate that would not impoverish us too much but would still make our products competitive. We decided on RM3.80 to one US dollar.

We kept this a secret, but we needed Bank Negara and the KLSE to implement our decision. The government had to oversee implementation of its plans virtually minute by minute. When we began putting these measures in place, we could not be sure whether or not the controls would be effective, or whether our decision on the mandatory registering of CLOB share sales could be carried out or would prove sustainable.

But when we made the decision in the NEAC, it is worth noting that Anwar was still the deputy prime minister and finance minister. He did not disagree with the plan to stop the currency traders and restrain the Singapore CLOB.

To play devil's advocate, Noordin of ISIS came up with more than 30 reasons as to why we should not carry out these plans. I had to argue against and demolish every one of those objections.

The other NEAC members displayed varying levels of enthusiasm, with some pointing out that this had never been done by anyone before. True, it was risky and there could be a total collapse of the ringgit. A black market might also emerge, selling the ringgit at below the price we fixed. The country's finances and economy might go into a tailspin and fly completely out of control — we could not be sure of anything.

But the argument that nothing must ever be done for the first time is an argument that appeals to the timid and the orthodox, not to someone who was responsible for his country in times of unprecedented difficulty.

The final part of the book extract continues tomorrow