Mahathir takes fight versus speculators to Ibero-America

The following is the text of a speech by Malaysian Prime Minister Dr. Mahathir Mohamad at the 12th International General Meeting of the Pacific Economic Cooperation Council (PECC), in Santiago, Chile, on Sept. 30. It was published by the Kuala Lumpur daily The Star *on Oct. 2, under the headline "We're Foreigner-Friendly, Says Prime Minister." Subheads have been added.*

I would like to thank you for the invitation to speak at this PECC Conference. I am a great supporter of cooperation for mutual benefit. The Pacific Economic Cooperation Council has, I believe, been set up to enable the businesses and the countries of the Pacific Rim to come together and to cooperate so we may all grow and prosper.

But the countries of the Pacific Rim are not equally developed. There are among them the two biggest economies of the world, the United States and Japan. But there are also some of the poorest countries, including the tiny island nations of the Pacific. In between are the emerging economies of East Asia, sometimes described as tigers and dragons.

For a time it looked as if cooperation would result in growing wealth for all the countries of the Pacific Rim. More and more countries would be joining the ranks of the dragons and tigers. Many of the candidates are from Latin America. In fact, over time, some of the Pacific countries may even join the ranks of developed countries.

Malaysia is one of the aspiring nations. Malaysia has prospered through opening itself early to direct foreign investments. The industrialization and rapid growth of Malaysia is due to foreign investments. We are foreigner-friendly.

Malaysia's story is typical of the story of the so-called tigers and dragons of Southeast Asia. Those of Northeast Asia are less dependent on foreign investment, although not altogether. And so if I describe Malaysia, I am really describing the countries of Southeast Asia, fellow tigers and dragons whose fangs and fire-breathing apparatus have been badly damaged lately, damaged unfortunately by some of the people we had been friendly with.

I want to relate the Malaysian experience, because it will have a direct bearing on the future of other developing Pacific countries and, indeed, developing countries everywhere.

Malaysia was a two-commodity economy only 30 years ago. Its economic well-being was dependent on tin and rubber, which were traded largely in markets outside Malaysia and outside Malaysian influence entirely. The vagaries of these marketplaces created a life of uncertainty for our people: For as long as we depended on commodities we could never progress.

'We decided to industrialize'

And so we decided to industrialize. We had no manufacturing capability, no big domestic market, no world network of markets. To industrialize, we had to rely on direct foreign investments which could be attracted only at the sacrifice of taxes and local participation.

We accepted the conditions demanded of us, because we needed jobs for our unemployed so desperately. We succeeded beyond our dreams, so that today 80% of our exports, worth $80 billion, is made up of manufactured goods and we have more than full employment; we in fact have a shortage of workers.

In the meantime, our people learnt the sophistication of an industrial economy and began to manufacture goods ourselves, to export them and even to invest in manufacturing in other countries. From 1988 to 1997 we grew at 8% plus per annum with inflation held at 3.5%. Per-capita income rose from about $1,600 in 1970 to $5,000, approximately, by 1997.

Our reserves could finance four to five months of retained imports. We had high savings of 38% of GNP, while the interest hovered around 8% to 9%, good for savers and good for borrowers.

We had the best infrastructure in the region. Ports, airports, roads, rail, and air services were adequate. Power outages were minimal, while water supply and sewerage are comparable with those of developed countries.

Our companies were all very profitable. Despite reducing corporate and personal income taxes, government revenue increased by about 10% every year. For the last four years, the government's budget showed a surplus.

We had very little foreign debt, having prepaid many of these debts from increased government revenue. For all the projects which were ongoing or planned, the financing arrangements have all been made, and they involved very little borrowings from outside the country.

Most of the financing would come from sale to locals and loans from local banks. There has always been sufficient liquidity. All projects were bankable. Against all these strong fundamentals, we have had a deficit in the balance of payments since 1994.

In 1995 the deficit reached $7 billion. We took immediate action, and by 1996, the deficit was reduced to $5 billion. The first half of 1997 showed further reduction. Given a little more time, we could wipe out the deficit altogether.

We have a strong government able to make and implement decisions, even unpleasant yet necessary decisions, quickly. The country is peaceful and stable. There is no civil strife. Labor relations are good, there being hardly any strikes. Such was the situation in Malaysia that [International Monetary Fund Managing Director] Mr. Michel Camdessus drew particular attention to the soundness of the Malaysian economy.

In a speech on June 17, Camdessus said, and I quote: "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 amid substantial capital flows and a booming property market.

"Of course, the life of policymakers is always easier when one starts, as Malaysia does, with a long history of low inflation and an outward-oriented economy. But significant further progress has been made in dealing with new challenges.

"Over the last year, output growth has moderated to a more sustainable rate, and inflation has remained low. The current account deficit—which is primarily the result of strong investment spending—has narrowed substantially.

"The increase in the fiscal surplus targetted for this year is expected to make an important contribution towards consolidating these achievements.

"The Malaysian authorities have also emphasized maintaining high standards of bank soundness. Non-performing loan ratios of financial institutions have fallen markedly in recent years; risk-weighted capital ratios are above Basel recommendations; and steps have been taken to restrain lending for the property and stock markets.

"In an effort to increase the flow of comprehensive up-to-date, and reliable information to markets, Malaysia was also among the first to subscribe to the Fund's Special Data Dissemination Standard. . . . Of course, as the governor of the Central Bank of Malaysia, Ahmad Dom, said recently, 'Despite this positive outlook, there is no room for complacency. Given rapidly changing market conditions, there is need to remain ever vigilant.' That is true for all countries. And it is the kind of attitude that fully justifies the confidence of the markets on the positive prospects of countries persevering in such endeavors."

Malaysia was targetted

Obviously Camdessus had a lot of confidence in Malaysia, in its fundamentals, in its economy, in the management of its economy. Yet today, we are told that the fund managers have lost confidence in Malaysia because of weak fundamentals.

The Malaysian ringgit, which had hovered between 2.49 and 2.51 to the U.S. dollar for years, began to slide. The explanation given was that the economy of Thailand, a neighbor, was weak.

Yet when Mexico went through its currency crisis a few years back, there was the prediction that Malaysia would be next. And Mexico is not Malaysia's neighbor, nor is its economy similar to Malaysia's economy. Malaysia's trade is with the whole world and not with a very rich neighbor only.

Obviously there were people who have been eyeing Malaysia and thought that it was ripe for the picking. Indeed, the dynamic economies of Southeast Asia all appeared ripe for plucking.

When the depreciation of the ringgit continued, Malaysia limited foreign exchange deals not related to trade to $2 million. For a time the manipulators were stopped. But then they began short-selling borrowed shares to obtain ringgit.

The result was a dip in the Stock Exchange indices. To the loss due to ringgit depreciation was added capital depreciation. Shares pledged to the bank fell below the amount borrowed. Margin calls were made which forced the index to go down further as shareholders tried to sell their shares to pay the banks.

No government can sit by and watch the wealth of the country being siphoned off. A stop was put to short-selling. Angered by their inability to fiddle with the stock market, the manipulators dumped shares and ringgit.

Today, in exchange rate terms, Malaysia has lost 23% of its wealth, and that includes the earnings of the very poor; and the share market capitalization, once the biggest in Southeast Asia, has shrunk by 60% in ringgit terms and 70% in dollar terms.

Where has this money gone to? It did not disappear into thin air. The speculators, the short-sellers, and the manipulators have it. These are rich people from rich countries. They have no compunction about impoverishing the poor in order to enrich themselves.

Their excuse: The Southeast Asian economies were not open enough. Yet they seem sufficiently open for these market manipulators to profiteer. We believe in free trade, but does it mean that abuse of the freedom should be calmly accepted?

When Rockefeller legitimately cornered the oil market in the United States, Anti-Trust Laws were enacted to stop such monopolies which had hurt others in the business and the public at large.

When Slater Walker acquired controlling interest in companies and stripped them of their assets, the authorities in Britain imposed a condition that anyone acquiring 30% of the shares of a company must make an offer for the rest. That stopped asset-stripping forays. Later, anyone acquiring a 5% share must announce their holding.

When Ivan Boesky and Michael Milken started to artificially inflate the value of junk bonds and Wall Street capitalization went down by 30% when they dumped the shares, the two were jailed.

Governments can act

Obviously, when the accepted system is abused and loopholes taken advantage of by the unscrupulous and the crooks, governments can and have acted to put a stop to them.

The free market works well under normal conditions. But when huge funds move into the market, the values of the shares and the currencies are directly affected. The fund managers can actually determine beforehand the effect of their moves and profit from their knowledge. They are not unlike insider traders, and yet their trading is still considered legal.

Currency trading is said to be 20 times the size of world trade. Yet what is there to show for this huge trade in terms of wealth creation for the international community? The only people who made or lost money are the traders. They contribute nothing to the well-being of the peoples of the planet.

A few dollars for charity is not enough to compensate for the destruction of the economies of not just a few people or a country, but whole regions. Until these traders started fiddling with the currency and the stock market, Southeast Asia was the most dynamic region in the world. Now there is financial turmoil and loss of billions of dollars by these countries.

Short-selling is speculative for the ordinary player in the stock exchange. But when a huge number of shares are sold for future delivery, the effect is the same as dumping currency. The share prices fall.

When the shares sold are borrowed from banks or the banks undertake to deliver when required, the amount of shares sold can be almost unlimited as they can be sold over and over again, each time forcing the share prices to fall.

In Malaysia, the share prices went down by 60% or more as a result of the short selling by these manipulators. They obviously made a lot of money for themselves. But when the banks ask for margins from those who have pledged their shares, many of these people will be bankrupt.

Companies may be foreclosed. The small players are going to suffer in the same way they suffered when Slater Walker stripped companies of their assets or Boesky and Milken manipulated junk bonds.

Yet the big short-sellers are free to strip the stock exchanges of developing countries. They even consider it a right. And they are protected instead of being prosecuted for their role in destroying the economy of nations.

The reality is that the currency manipulators have pushed back the economy of Southeast Asia by 10 to 15 years. The reality is that innocent people have been impoverished by their action. The reality is that they seem able to manipulate at will and with impunity.

The per-capita income of Malaysians has been reduced by them from $5,000 to $3,600 in two months, when it took 12 years to achieve.

The North-controlled media openly gloated and tried to put the blame on allegedly incompetent Southeast Asian leaders. Blatantly they tried to get Southeast Asian leaders to blame each other, to break their unity. Any criticism of the currency traders would immediately result in further devaluation of all the Southeast Asian currencies.

These are the realities. Yet the finance ministers of the rich North and assorted leaders lauded the currency manipulation as an integral part of the free trade system. They demanded that Southeast Asia accept their impoverishment as evidence of how good is free trade. They demanded that these countries open wider their countries to other potential manipulators.

What is the meaning of 'democracy'?

What is the meaning of democracy if the elected leaders of a country have to submit to the wishes of self-appointed currency traders from other countries?

What is the meaning of democracy if freedom is denied the popularly elected leaders to manage their own country's economy?

What is democratic about impoverishing poor people in poor countries in order to force them to accept the dictates of the avaricious in the rich North?

There is no democracy and there is no freedom. Free speech is only for the rich and their media. The rest have no voice.

For hundreds of years, Southeast Asia was colonized and exploited. After independence the people had worked hard to rebuild their countries. It was a lot of sweat, toil, and tears, and not miracles, which built their economies.

Most of their people are still poor. They need many more years of toil and tears and more sweat. But much of their sacrifice has come to nought because a few very rich currency manipulators and short-sellers decided to rape these countries under the guise of free trade.

Currency trading and short-selling only benefit the few speculators and those who invest in their funds. These people pay no tax to the countries from which they make huge profits and which they impoverish. They are shadowy figures whose trading is far from open.

There seems to be no published record of the transactions, the volume, the currencies involved, the funds and the individuals involved.

All that we know is that suddenly certain currencies depreciate in value because these shadowy figures have decided that they have lost confidence in the currency.

Countries, rich countries, had developed in the past without currency trading. In fact, they developed on the basis of fixed exchange rates. Clearly, trade in goods and services can be carried out without currency trading, but currency trading cannot exist without trade in goods and services. So, why must there be currency trading at all?

Exchanging money to finance trade is fine, but trading money as a commodity is unnecessary and immoral.

For some time now Malaysia has been literally preaching the benefits of a prosper-thy-neighbor mindset.

Business is not a zero-sum game

Business need not be a zero-sum game in which one party gains at the expense of another. Business can be beneficial to both parties, a win-win game. We have experienced this when genuine investors set up real industries in Malaysia, creating jobs and wealth for the country, and making it a good market for the countries of the investors.

Subsequently, Malaysia began to invest in other countries, to create jobs for them, to enrich them. And then they became good markets for Malaysian exports.

The membership of the PECC is made up largely of the business people of the Pacific Rim. I am sure you know that doing business with a poor country is not worthwhile. Rich countries, including rich developing countries, make good trading partners. If you impoverish these countries you would really be killing the geese which laid the golden eggs. You would not cooperate to impoverish the markets where you do business.

As a result of the devaluation of the ringgit, Malaysia cannot now import all those things we used to buy from you.

In the first place, we need 23% more of our money to buy whatever we used to buy. And finding that extra money is not going to be easy. Even if we need to import these things, we have to cut down by 20% at least. You will lose 20% of your Malaysian market.

Besides, we have been told to reduce the deficit in our balance of payment. The only real way of reducing the deficit is to import less, since it is not so easy to export more. If we slow down our economy to reduce our trade balance, it still means we will be unable to buy the things we need from you. Whatever we do, your export to us will be reduced and reduced quite considerably. You will lose something due to our impoverishment.

There really is no benefit in impoverishing other countries. No one gains anything, not the country concerned, not the country of the people who undermined the economy of the aforesaid country.

You may want to uphold free trade and consider currency manipulation and short-selling as a part of free trade. But they need not be. If we cannot stop currency trading, we should at least try to regulate them.

As business people you want predictability. We know that it takes time for investments to yield a return. But currency manipulators create uncertainty. Your costings can be adversely affected by revaluation or devaluation of the currency. It may be good for them, but it will not be good for you.

We cannot go back to Bretton Woods and the fixed exchange rate. The value of the country's currency should fluctuate a little simply because the economic performance of countries are never constant and there must be changes in the exchange rates between different countries because of the differences in economic performance. But there are already numerous indices of economic performance which can be used to fix the value of a country's currency.

We have the per-capita income, GDP, GNP, growth rates, so-called fundamentals, which can all be given points within a certain range. This will enable investors and others to determine the potential and the future economic performance of the country. Everyone should be free to make his assessment based on these indices and buy or sell the currency concerned in order to finance trade.

If we want to see world trade grow, then we should not support the abuse of free trade caused by the trade in currencies as a commodity. They are not commodities. They are merely tokens with no intrinsic value, but are meant only to facilitate trade. Because of them we have no need to barter.

We need to have a standard for comparing the value of different currencies. Today we use the American dollar—an unstable currency. We need to devise a standard which is less volatile.

A common basket of currencies can be used for this—each currency being valued according to the economic indices. There will be fluctuation of the currencies in the basket, but they are likely to cancel each other. The basket, if wisely chosen, is likely to remain stable. We would then be able to make a comparison of the relative value with a stable standard.

World trade would surely be facilitated and would grow because much of the uncertainty would have been eliminated. However, as the basket is only a standard, it cannot be traded as currency is traded. We would still have to procure the particular country's currency. The value would still fluctuate a little. But economic activities, trade, services, etc., would all be less subject to violent swings and volatility which can cause unnecessary losses.

People trade for profit. Real traders are not gamblers. They want to buy and sell at known prices. If they hedge today it is not from choice, it is from lack of choice. And I don't think real traders like it even if, off and on, they make windfall profits.

It is nauseating to read in some magazines the obscene gloating over what they consider the fall of the Asian tigers. As in the case of Diana, where strenuous attempts are being made to exonerate the paparazzi and put the blame on the dead driver (ignoring, of course, that it was the frenzied chase by the photographers on motorcycles which forced the driver to speed), the so-called popular press and even the IMF are trying to blame everything on the governments of the Asian countries.

I will not say that Asian governments are totally blameless. But the financial situation of some countries would never be this bad if it had not been for the manipulators.

When the Thai baht depreciated, it should not have been aggravated by the foreign holders of the baht dumping the currency. As it is, they purposely dumped and caused the slide to continue.

But the other countries of Southeast Asian were not in the same economic situation as Thailand. I have already enumerated the strong fundamentals of Malaysia. Nothing had changed much in the other Southeast Asian countries since the time when confidence was strong and investors were pouring money into them.

Yet because of Thailand's problems, the loss of confidence was visited upon the rest of the Asian tigers. Can anyone dare to say that if the currencies were not dumped on the market they would on their own devalue themselves?

Yet, there are people from the rich North who insist that we should accept the loss of billions of dollars, because free trade is sacrosanct and may not be blamed.

'Asian values' are not the problem

The present crisis has nothing to do with Asian values. Hard work, discipline, a strong commitment to the community, thrift, moderation in the pleasures of life—these are Asian values and they cannot adversely affect Asian societies. They had not in the past. Indeed, they had contributed to the emergence of the Asian tigers and dragons.

On the other hand, the values which influenced the dumping by the manipulators are totally materialistic, inconsiderate of the problems of others, uncaring for the poor and motivated purely by the desire to create an economic environment for further exploitation by them.

It is not Asian values which had failed us. It is the greed of a few which had precipitated the crises in Asian countries.

Today the countries of Southeast Asia are the main victims. But as we all know, Mexico and Brazil have been attacked, too. So has South Africa. So had a few East European countries. It would seem that as soon as a developing country appears rich enough, it will be raped and impoverished again.

I am aware that the PECC and many other Pacific organizations have members from the developed North as well as the developing South. The idea of cooperation is great. Cooperation implies mutual help and mutual benefit—a win-win mindset. I am sure that everyone of you is of that mindset.

Turbulence in the currency market and the impoverishment of the countries of the Pacific Rim will not be of help to your business or the countries that you do business in or with. Business needs predictability and good prosperous markets.

The fund managers, despite their denial, are largely to be blamed for the present turmoil and the slowdowns in the economy of the East Asian countries. They and their unethical activities are not good for any one of you. You will not lose anything if they are not around.

I would like to suggest that we do away with trade in currency as a commodity. I would like to suggest that currencies should be linked to the economic indices of the countries concerned. I would like to propose a return to rationality rather than self-serving sentiments.

East Asia may be made up of dragons and tigers. They may appear rich. But there are a whole lot of poor countries and very poor people in East Asia. They have a right to their hard-earned money.

'Free trade is not a religion from heaven'

Free trade is not a religion from heaven. It is an invention of mere men and such inventions can prove horribly wrong. How many millions of people died because someone invented communism and national socialism? How many countries have been impoverished by socialistic theories?

Free trade is great. But it is not perfect. In fact, it is defective. Time and time again the freedom of the marketplace had been abused. Rogues and highwaymen have plundered the stock market, the commodity market, the financial market, and about every facility spawned or invented in the name of free trade.

We need trade to be free, but let us be honest. There can be no absolute freedom for anything. If society is to exist as a society, if society is to be peaceful, stable, and prosperous, there cannot be absolute freedom, for the simple reason that the freedom of one limits or denies the freedom of another.

Freedom must therefore be subjected to freedom-limiting rules, regulations, and laws in order to be equitably shared.

Free trade has never been truly free. There are any number of laws and regulations even now to ensure that free trade works. Without laws and regulation, all that we get will be anarchic markets in which the strong, the ruthless, the irresponsible will exploit and abuse the trading. For most of the weak and the passive, there will be effectively no free trade. For them, the market will be regulated—by rogues.

This is the simple truth about free trade. The activities of the currency traders deny freedom to others, to peoples of many countries and to the countries themselves. We therefore need to regulate or outlaw currency trading—so free trade can flourish.

I know you will find difficulty in accepting what I say. But in the interest of free trade for mutual prosperity let us think. In the name of economic cooperation let us cooperate to make the world of business a safer world, free from manipulators and the highway robbers.