

In Defense of Capital Controls

*An Interview with
Malaysian Prime Minister
Mahathir Mohamed*

On September 1, Malaysia announced the introduction of far-reaching capital controls. That day, Malaysian Prime Minister Datuk Seri Dr. Mahathir Mohamed participated in an interview on Malaysian television. The transcript of the interview originally appeared in the Malaysian newspaper, *The Star*, on September 2. The excerpted version reprinted here has not been edited for content, grammar or style.

Mahathir was interviewed by New Straits Times Press Group Editor-in-Chief Datuk A. Kadir Jasin, Bernama Economic Service Acting Executive Editor Yong Soo Heong and Public Bank Berhad's Director of Economics Division Nasaruddin Arshad.

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Question: *Bank Negara announced at noon today a series of measures to insulate and protect the economy to minimize the impact of the global financial turmoil on our country. These include the establishment of a fixed exchange rate for the Malaysian Ringgit and making the ringgit tradable only in the country. The Bank Negara Governor will soon be fixing the value of the ringgit.*

Why are the measures being taken now and what are the benefits to our country?

Mahathir Mohamed: This measure became necessary because when the ringgit's value is in an unstable situation business could not be continued in a way that would be profitable.

Another point is when the ringgit's value is brought down, our income will be reduced particularly when we want to buy goods from overseas. In a situation like this we will become poor, the country will become poor, the government will be poor and the public at large will also become poor.

They will need more ringgit to go overseas or



Malaysian Prime Minister Mahathir Mohamed.

to buy imported goods. As their income has not increased they will directly become poor.

We have to fix the value of the ringgit permanently so that traders and individuals will be aware of their financial position and with that the economy will operate well.

If foreign investors want to invest in shares they can but such investment must stay in the country for at least one year. They cannot come and invest and then dispose of or push up or down the value of the shares.

Q: *In other words, does it mean that the ringgit no longer has a value outside the country?*

Mahathir: Yes, we have decided that there will be no value attached to the ringgit outside Malaysia and as such any ringgit held outside Malaysia will not be legal tender.

However as we know there is money outside Malaysia, we will allow such ringgit to be repatriated to Malaysia within a period of one month from today. If not repatriated by then we will regard such ringgit as invalid and we will not allow for the ringgit to be returned to Malaysia in any form whatsoever.

Q: *How does this new measure reduce speculation?*

Mahathir: Normally the ringgit is used for speculation offshore, ringgit belonging to foreigners, particularly ringgit belonging to currency traders.

They hold the ringgit in foreign banks but ... there is a corresponding account in a Malaysian bank and whenever they trade and sell the ringgit it is not only reflected in the foreign banks but also in banks in Malaysia.

What we have done of course is to freeze completely the accounts that are in the Malaysian banks. Even if they sell ringgit outside of Malaysia, that will not have any effect in moving the ringgit from one account to another.

In other words the actual ringgit, the ringgit in this country will not be sold at all because the account does not move. The trading outside Malaysia is totally meaningless because they are trading in something that has not affected the real ringgit in the country.

They can buy and sell the ringgit but it will be useless ringgit because that ringgit even if somebody buys it will not be allowed to come into the country later. We will allow within one month, but not after the one month. Since the ringgit is only legal tender in Malaysia, and it cannot come into Malaysia, then it is useless ringgit.

So anybody owning such ringgit after one month will find they are holding accounts or papers which are of no value whatsoever.

Q: *Will this move bring about a bad image to the country?*

Mahathir: It will not cause bad image for the country, except of course for currency traders and probably certain members of the media who will not be very happy.

But as far as investment is concerned, foreign money can still be brought into the country exchanged into ringgit, used in Malaysia to invest in whatever including the purchase of shares or buying properties or setting up industries.

When they do business and want to take out

the money they can apply to the central bank for permission to take out the money and we will still allow the foreign currency to be given to them in exchange for the ringgit that they have and taken out of the country according to the needs.

For example, if they're going to purchase components from some countries in a foreign currency, they can obtain the foreign currency.

So investment is not affected by this except investment in shares because that is considered hot money. If they want to invest in shares they can but such investment must stay in the country for at least one year. They cannot come and invest and then dispose of or push up or down the value of the shares.

So as far as investors are concerned, genuine long-term investors are concerned, this will facilitate their investment because they will know exactly how much money to bring in because the exchange rate will be fixed and if they make any profit here and they want to remit their profit back home then they can change the profits made here from ringgit into whatever currency and that currency can be remitted out of Malaysia.

There will be exchange but there will be no trading in the currency.

Q: *We often hear of offshore ringgit and it is estimated that such offshore ringgit had reached a value of 100 million.*

Mahathir: Actually in terms of cash, there is only 100 million outside the country and that we can repatriate within one month. If they don't of course the money is just waste paper. It's worth nothing at all. If they try to bring it in, we will stop them and we will confiscate such money.

Q: *How much is the offshore ringgit account?*

Mahathir: That is much bigger. That is more than 20 billion certainly, maybe even 25 billion. But that money, of course, is outside of Malaysia even now has got no value. In order to give it value they must hold a parallel account in a Malaysian bank.

When they do that we will negate the value of that currency by stopping any movement of the account in the Malaysian bank. They cannot move the account, in other words they cannot sell the ringgit, because if they sell the ringgit, the ringgit in Malaysia will not move.

So effectively the person who has sold is still the owner. And whoever buys it buys nothing so it is not worthwhile for them to purchase the ringgit anymore outside the country.

The only thing for them is to transfer the ringgit completely to Malaysia and they have one month to do that, which means that the ringgit in Malaysia will now be put back into circulation. It

can be used to purchase goods, houses or whatever. Profit from palm oil export for instance must be brought back otherwise they will be in breach of the regulations and action will be taken against them and the bank involved.

Q: *How about financing education overseas or for tourism?*

Mahathir: Students studying overseas may for instance need pound sterling for which they would have to apply to Bank Negara and would have to provide adequate documents to support their application and Bank Negara would supply them the money that was only necessary for the purpose.

Our people going as tourists will be allowed RM10,000 in foreign exchange and this we feel is sufficient for tourism but if they have other needs we can consider.

Q: *Does RM10,000 include spending through credit cards?*

Mahathir: The RM10,000 is inclusive of credit card spending. All included. If he has five credit cards each with RM10,000 that will be RM50,000. We know there are people with 10 credit cards each with credit limit of RM10,000 and for 10 cards it will add up to RM100,000. We cannot allow so much money to be spent outside the country.

Q: *On manufacturers, don't you think that these new measures will add some transaction cost to them?*

Mahathir: Probably it will add some transaction costs to them but it will be much less than the hedging that they have to do when the value of the ringgit fluctuates. As you know sometimes people require as much as 15 percent commission in order to take care of possible fluctuation. But when the rate is fixed you don't have to bother to hedge so that reduces your cost of doing business and also of course, payments and all that when they are made much later it will not be subjected to devaluation or revaluation for that matter. So business would be much more easy to conduct.

Q: *How long have you been looking at this matter, but yet we have gone ahead with measures that did not work ... how long have you been looking at this option because this is seen as rather radical?*

Mahathir: We have looked at other ways of trying to stabilize the exchange rates as well as the share prices. ...

As you know initially we have stopped the movements of cash across the border but that was of course ineffective because they can go ... move all kinds of documents and papers and checks and

all that so that was totally useless.

We also tried to force people buying shares to bring the scrip but because some shares are traded within nominee companies. ... Actually there is no changing of ownership because it is still with that nominee companies so the trade can go on within the nominee companies. ...

So all these things we have examined and then finally we decided that the only way we can manage the economy is to insulate us from the activities of the currency traders and the share market speculators.

To do this we have to take the exchange away from them. ...

At the moment they are holding the exchange and the problem with other action is that every time we try to help our economy they tried to block it. ... For example if we try to reduce the interest rates they will push down the value of the shares, they will push down the value of the currency so that creates a lot of damage to us. Each time we try to do anything they will fiddle around with the currency and the share market. ...

The moment we announced that, the rating agencies came in and downgraded us. Our credit rating was pushed down until it is almost at junk level and therefore the cost of funds becomes higher and the ability to implement this is restricted and so you can see that as long as they can fiddle around with this thing we cannot do very much to rehabilitate our economy.

So the most important thing is how do we erect a barrier between them and us and what we have done actually is to negate their ability to interfere in the value of our currency, in the stock market etc. So once we are relieved of that we can now look into the internal economy. We can now actually reduce the interest rates to a level that will help to revive the businesses in the country. ...

For example the non-performing loans (NPLs) will no longer be NPLs if the interest rate is reduced. ...

At the same time we were forced to reduce the time to declare a loan as non-performing from 6 months to 3 months and doing that of course increases the number of NPLs. ...

So now we are less bothered about what they want to do to us.

In many countries there is no time limit for NPLs ... it is 9 months or 6 months. ... So we can now think about doing that.

There are quite a lot of things we can do. For example we can revalue our companies according to their net assets value because now the share prices are ridiculous. It is below the asset value of the companies or sometimes the companies may have a huge amount of cash and yet the share prices have gone very far below. ... Once we reval-

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We have seen blood enough. In some countries, millions of workers are unemployed now and they have no food, no medicine, no milk for their children and all these people can think of is that this is the price we have to pay for the reforms.

ue our companies then the NPLs will not be as bad because the collaterals using the value of the companies would now appreciate again and will go perhaps above the value of the collateral before. So there are a lot of things we can now do because we do not have to fear their actions to stop us by devaluing our currency or by pushing down our share market.

Once we regain control of our exchange rate then we can actually reduce the interest rates and not have somebody devalue our currency because we are in control. ... Then our companies would be able to revive. ... They can now borrow more money ... and if in addition to that of course our ringgit is revalued upwards. Then if companies have to borrow to purchase something from outside they would not need so much money as they do now because where before they were borrowing RM 2.50 to buy one dollar worth of imports now they have to borrow 4.20 and when they borrow 4.20 then of course the cost goes up for them and they become no longer viable. ... But if we revalue the currency then they will not have to borrow so much and at the same time the companies' value will appreciate.

Q: Despite the evidence we see today, the IMF and other international agencies are not very keen to come in and stabilize the economy. Despite the fact that that is actually their mandate. Can you enlighten us what is the rationale that they are not helping us through?

Mahathir: They see in our trouble a means to force us to accept certain regimes. They want us to have reforms, meaning to say we should open our market wide for foreign companies to come in and do business without any conditions whatsoever. Their help is always based on that. ... We will give you the money provided you open up the economy. And when we open up our economy, we will of course lose control of our economy, all our companies, all our banks and all our industries will belong to foreigners.

In Malaysia, in particular, we are in the process of restructuring the economy, we can't do that because they will object to any conditions being imposed upon them. So the IMF should in fact be helping developing countries which are in financial trouble but it wants to use the financial trouble in other countries to enable the giant companies from the rich countries to come in and take over the economy. That seems to me to be their objectives rather than helping. Of course they say reforms, but reforms [to] them means something beneficial to the developed countries.

In fact among the speculators they actually say openly, "we want to see blood." In others words we want to see killings. You know these companies

must be killed, that is a measure of how serious you are about reforms. I can't understand that because we have seen blood enough. In some countries, millions of workers are unemployed now and they have no food, no medicine, no milk for their children and all these people can think of is that this is the price we have to pay for the reforms and reforms are good for you.

Q: Do we have any changes to our investment policy?

Mahathir: No changes to our investment policy, they will still have the same treatment, privileges, tax-free incentives that we normally give. They will have all those and at the same time they can bring in money and they can take out money that is theirs, if they make a profit.

Yes, they can take out their profit, and in order to make a profit they have to produce something which they sell, and we'll benefit from their activity of selling especially if they export, if say they export 10 million dollars of goods, they will bring back that 10 million dollars, their profit maybe one million dollars. That one million dollars, take it and repatriate it to their country we don't mind that, but they have to earn the profit first before they can repatriate, they can't simply take the money here and convert into foreign exchange and then send out.

Q: You have said that the government will spend huge sums of money for infrastructure projects, who will build these projects, will the government reassume the role of implementors or will the government continue to do so via privatization?

Mahathir: I always believe that the government is less efficient. That's why we go for privatization and it doesn't matter if the money is from the government or the private sector, what is important is money changing hands. When there are economic activities, money will change hands, whether from the government to the private sector or between the private sector itself or to the workers, suppliers, the transport industry people, all these will happen if we spend money. Government or private sector is not the problem, what is important is that money is moved around and not just being kept idle.

I'm confident that if the value of their shares once again is commensurate with the net assets and the value of our currency is again stable, the companies will recover, if not fully recover, at least their NPLs will be reduced and they can borrow once more.

If they can borrow, they can carry out economic activities and make profits and profitable activities will enable them to repay their loans and in this way, they can be revived. ■