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Confidence needs to be sustained for economic policy to succeed

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MALAYSIA must be doing something right. One after another, people are coming forward to make favourable comments about Malaysia's economic policies, even if they don't say them outright.

On Monday, Australian Prime Minister John Howard said he would take a Government-established task force's recommendations on reform of international financial system to world leaders.

Among the salient points of the task force's recommendations is supporting the establishment of a working group to examine appropriate disclosure standards for highly-leveraged hedge funds as called for by the recent Asia-Pacific Economic Co-operation Leaders Summit in Kuala Lumpur.

It also recommended that Australia play an active role in establishing a working group on improved crisis management, also called for by the leaders at the Apec summit.

What does this mean? Simply, it means Australia supports reining in the free-wheeling hedge funds which have wreaked havoc in the international financial markets.

What Australia is saying is perhaps not new to Malaysian ears. Outspoken Datuk Seri Dr Mahathir Mohamad seemed to be the lone voice when he locked horns with the currency traders and hedge-fund managers last year.

The Prime Minister had initially won tacit support and as the crisis deepened in Asia, support became widespread and more out in the open.

Japan - largely seen as the major financier of the United States, the world's largest economy - is also slowly but surely coming out in support of shackling currency traders.

The powerful Japanese business lobby, Keidanren, had previously stated its stand against unfettered currency trading and highly-leveraged hedge funds when its delegation visited Malaysia earlier this year.

Officials and businessmen in both Hong Kong and Taiwan have also come out individually or as a group in support of Dr Mahathir's views. Hong Kong had first-hand experience of being hit by share market and currency manipulators and it took the unpopular though effective policy of direct intervention to shore up its financial and equity markets.

Another feather in Malaysia's cap is the fact that the Australian task force also supported moves to introduce "more innovative and flexible financial support packages" by the World Bank and International Monetary Fund. This means Malaysia's complaint of the IMF medicine being too bitter a pill has again won support.

Perhaps, the sweetest endorsement of Malaysian policies came from the IMF itself when it released its "World Economic Outlook and International Capital Markets" report in Washington on Monday.

The Report stated that Malaysian financial markets appeared to have stabilised while consumer demands were showing signs of improvement and might soon see an end to its recession.

This coming after Malaysia has declined IMF's one-medicine-fits-all prescription for recovery is a recognition of its exchange rate control to stabilise its economy.

Michael Mussa, the principal author of the Report, admitted that Malaysia's interest rates had come down, as in Thailand and South Korea. He also admitted that it was not clear for now if such controls would assist or harm the economy.

Such measures, implemented in September, might make Malaysia less

attractive for investors who are afraid of being stuck, he said, "but it is hard to figure if this will happen. We have to assess the situation more down the road," he told reporters in Washington.

Evidence that a responsive economic machinery is in place can be drawn from the latest move by Malaysia to consider proposals from fund managers to review the one-year rule on short-term capital flows.

Special Functions Minister Tun Daim Zainuddin, who is the executive director of the National Economic Action Council, has said that Malaysia would consider an exit tax or a system of "most-favoured investors".

Already, British construction group, Blue Circle Industries plc, has been allowed to swap US dollars for ringgit from external accounts up to one-quarter of its RM2.4 billion investments in the cement industry.

It is probably the first such "most-favoured investor" even though one reason was that the deal was struck before the Sept 1 exchange rate controls and the payment period was after it. Factors in its favour include its status as a long-term investor having been in the country since 1953 and the fact that it is bringing in mega-bucks at a time when Malaysia needs it badly.

Contrary to market ideas, the swap rate is the official Bank Negara peg of RM3.80 to the greenback and not at any discount.

Despite all these kudos, there are still cynics and those who refuse to look at the situation with an open mind. Malaysians cannot expect everyone outside the country to believe in the Keynesian theory of generating domestic demand to drive the economy out of the doldrums but we can at least expect foreigners to give us a fair chance. This is sadly not the case.

What we can do is to immediately put forward our views as much as possible and as fast as possible. Here, the NEAC as the national think-tank with expertise drawn from the various sectors, has a central role.

More important, Malaysians must believe in themselves. Confidence is the cornerstone of any economic policy. There is confidence now. What needs to be done is to sustain this confidence.

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