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CAPITAL CONTROLS

CURRENCY CONTROLS: OTHER ASIAN COUNTRIES MAY FOLLOW MALAYSIA

KUALA LUMPUR, Sept 2 (Bernama) -- Malaysia's move to impose capital controls to protect its economy, if successful, may well be emulated by other Asian nations, according to the Asian Wall Street Journal (AWSJ).

The regional paper, in an article today headlined "Acceptance of Capital Curbs Is Spreading", said the failure of the International Monetary Fund (IMF) to stop the contagion sweeping through Asia had made ideas like capital controls "intellectually respectable again."

Policy-makers in Asia could not help but notice that China and Taiwan both have capital controls and neither had succumbed to the region's contagion, the AWSJ said.

Malaysia, in a drastic move to insulate its economy from adverse external developments, and in particular to stop further speculative attacks on the ringgit, yesterday announced wide-ranging capital controls and a fixed exchange rate for the local currency.

In the Hong Kong-dated article with the intro "What if Prime Minister Mahathir Mohamad is right?", the AWSJ said Malaysia's decision to impose capital controls flouted economic orthodoxy and directly contradicted the crisis prescriptions of the IMF, the U.S. Treasury and a host of other experts.

"Malaysia, like France, appears to delight in tweaking Washington's nose.

"If the capital controls show any signs at all that they are working, however, other Asian nations will be very tempted to copy Malaysia," the paper said.

That would not only embarrass Washington but could also transform the debate over how to organise and supervise the global financial system.

The paper said Malaysia's decision to drop its previous IMF-style high interest rate policies was not surprising.

"What is a little surprising is that Dr Mahathir isn't out on a limb by himself," the paper said.

Superstar American economist Paul Krugman made the case for capital controls in Fortune magazine just as rumours began to fly that Malaysia was considering such measures.

Following Malaysia's announcement yesterday, economists pointed out the potential difficulties that capital controls can create.

However, a few also pointed out the potential benefits; in the short term and given current circumstances, they said, Malaysia's move isn't necessarily a bad one.

Compared with the alternative -- a crushing recession -- capital controls may look attractive if they allow Malaysia to bring down interest rates and get money flowing again in the economy.

"I know it sounds heretical, (but) it may well be for Malaysia that that is the case," the paper quoted Chris Tinker, chief economist at ING Baring Securities in Hong Kong, as saying. -- Bernama

SJ SHY