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EXCHANGE CONTROLS

M'SIAN EXCHANGE CONTROLS AIMED AT INSULATING, NOT ISOLATING ECONOMY

By: S. Durga Varma

TAIPEI, Sept 4 (Bernama) -- Malaysia's move to bring currency fluctuations under control has been described as a temporary measure aimed at insulating, not isolating, the economy from the current economic maelstrom, a top Taiwanese banker said today.

Dr Jeffrey Len-Song Koo, chairman and chief executive officer of Chinatrust Bank, a leading commercial bank in Taiwan, said business leaders should not rush to pass judgement on Malaysia's latest move.

"We would very much like to see the new measures succeed as it will help the ringgit stabilise," he told Malaysian journalists at a pre-opening press conference of the APEC Business Advisory Council here.

In endorsing Malaysia's latest monetary policy, Koo, who is also the national policy advisor to Taiwanese president Lee Teng-hui, said the International Monetary Fund (IMF) and other foreign countries had criticised Malaysia's actions in the past.

"But (Malaysian Prime Minister) Dr Mahathir (Mohamad) has taken it upon himself to resolve the economic turmoil and it should help the country resolve its financial crisis," he said, pointing out to the fact that exchange control was a bold and aggressive move to restrict capital flow.

The Malaysian authorities sent shock waves through the global markets this week when the ringgit was pegged at 3.80 against the greenback for an indefinite period.

The control measures also include banning offshore ringgit trading and depositing ringgit outside Malaysia. In addition, offshore ringgit holdings must be repatriated by Oct 1, 1998 or they will be considered worthless.

The pegged exchange rate is an important measure to protect Malaysia from becoming prey to speculators on the prowl.

Koo, who is also chairman of the ABAC financial task force, was positive that Malaysia would be able to stabilise the ringgit if the country succeeded in backing its exchange rate with sufficient foreign reserves.

"If you can stay successful for six months, then it (foreign exchange control) would be a success.

"We hope it will work as we do not want to see a bigger turmoil," he said, adding that the only concern that Taiwan businesses now faced is how they can remit their funds or savings out of the country.

Meanwhile, Koo also said Taiwanese investments in Malaysia were not likely to drop in the near term.

"I do not think that latest move will affect Taiwan-Malaysia relations and investment decisions," he added.

Infact, he said a group of investors including himself, will push ahead with plans to set up a Southeast Asian investment holding firm, with NT\$10 billion (US\$300 million) in capital.

"Malaysia will also benefit from this fund," Koo said, adding that the company will invest in stock markets in the region.

Meanwhile, P.K Chiang, chairman of the Cabinet-level Council for Economic Planning and Development (CEPD), who is also a delegate to the Third ABAC meeting, said the pegging of the ringgit to the U.S. dollar would benefit Taiwanese importers and exporters doing business with Malaysia as it would reduce currency risks.

He added that Taiwanese businesses have been assured by the Malaysian government that it would not implement measures that could pose a threat to

their interests.

A check with local banks here this morning revealed that trading of the ringgit in response to Malaysia's decision to ban all trading of the Malaysian currency overseas had come to a halt.

Banks are now awaiting new instructions from the Malaysian government before resuming trading. However, no one knows for sure when, if ever, that will be, according to banking sources.

For those who have ringgit accounts, Chiang said they should not panic.

He felt that the strict foreign exchange controls were not likely to present too much difficulties for investors in Malaysia nor for trading companies with dealings with Malaysian firms although the controls may present some problems in term of procedures for Taiwan investors in Malaysia.

Chiang said most Taiwanese manufacturers in Malaysia exported their goods out of the country in US dollars, the same with Taiwanese traders who have dealings with Malaysia.

However, he said more details should be forthcoming on the direct impact of the ban on ringgit trading overseas and the pegging of the ringgit at 3.80 against the greenback before business here decide what to do next.

"The real impact on Taiwan's businesses cannot be determined until more details are made available," he said.

According to statistics obtained from the Industrial Development and Investment Center here, Taiwan's investment in Malaysia from July 1997 to June 1998 grew 67.9 percent, compared with the same period a year earlier.

Taiwan-Malaysia trade totalled US\$7.27 billion in 1997, making it the second largest foreign investor in Malaysia, next only to Japan.

Malaysia is also one of two countries where Taiwanese investments in Southeast Asia have increased. Trade with Vietnam rose 48.57 percent.

Taiwanese investments in other South East Asian countries decreased sharply during the period with a decline of 90.93 percent in Indonesia, 86.94 percent in Thailand, 32.20 percent in the Phillipines and 9.77 percent in Singapore. -- BERNAMA

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