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Exchange controls can help Malaysia (HL)

Hardev Kaur in Tokyo

MALAYSIA'S decision to impose exchange rate controls may be a step in the right direction to overcome its problems, Japanese Vice-Minister of Finance Eisuke Sakakibara said.

He said they were not as bad as some quarters had made them out to be.

"The world opinion is changing and the opposition to such controls is also beginning to change," he said.

Sakakibara's endorsement came amid similar approval from other economists, financiers, bankers and leaders, many of whom are coming round to Malaysia's way of thinking.

Malaysia, which introduced the exchange rate controls on Sept 1, has been called anti-free market, a heretic and bucking the trend of free market and globalisation.

Sakakibara, nicknamed "Mr Yen" because of the impact his remarks often have on the Japanese foreign exchange market, agreed with Prime Minister Datuk Seri Dr Mahathir Mohamad who earlier said that being a heretic is better than being colonised.

Dr Mahathir had been labelled a "heretic" for announcing the exchange rate controls.

"I think the world situation has changed lately and what Dr Mahathir said is no longer heretical," Sakakibara said.

Sakakibara was among the panellists at a seminar organised by the Mainichi Shimbun. Besides Dr Mahathir, other panellists were the chairman of Japan's External Trade Organisation and the former Vice-Minister of the Ministry of International Trade and Industry Noboru Hatakeyama.

Dr Mahathir, in explaining the exchange rate controls, pointed out that under the Bretton Woods regime the world had been subjected to a fixed exchange rate. It was only when some countries had reneged on their agreement that the fixed exchange rate was done away with.

Saying that this was "not a bad system", Dr Mahathir added that problems arose when "we have a fixed mind ... we seem to think that we should not fix the exchange rate no matter what happens.

"If people die and are thrown out of jobs and suffer, that is all right ... because we must support the market controlled exchange rate

"I think we should get away from that kind of thinking. We should examine the effects rather than just the cost.

"When you come to a stage where you see the bad effects of the market fixing and playing around with fluctuating exchange rates, we should be prepared to revise our thinking and see whether the present system is good or bad.

"If we find that the fixed exchange rate will help the world economy, we should examine it, perhaps modify it, or regulate it. But we should not shut our minds from considering alternatives," he said.

Sakakibara also spoke of the massive movement of currencies across borders which he described as "a global but unstable system" and that there was a need for "prescriptions" against that.

Agreeing with Dr Mahathir's view on markets, Sakakibara said: "Markets are not perfect and cannot do everything ... we have seen market failures which occurred in the past year."

Dr Mahathir said he planned to highlight the financial and currency crisis facing Southeast Asia and the Pacific region at next month's Asia Pacific Economic Co-operation meeting, and hoped to arrive at ways to

overcome the problem.

The Prime Minister said: "Malaysia would like to say quite a few things about currency trading. I expect this will be one subject that will be discussed thoroughly and hopefully we will be able to arrive at some conclusion on how to handle it."

Dr Mahathir said this in reply to a question from a Japanese journalist during a Press conference at the end of his five-day working visit to Japan.

More than 100 foreign journalists were present at the Press conference held at the Japan National Press Club.

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