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Flying in the face of orthodoxy

IT SEEMS that Malaysia has, once again, defied common logic and world opinion by choosing to take its fate into its own hands. Yesterday, it fixed the value of the ringgit to put a stop to capital flows that had been bleeding the country dry. This was a bolt out of the blue for many, not least currency traders who had grown fat by gorging on the misery of Asia's people. The incredulity and amazement that greeted the announcement was only matched by the predictions of doom from currency traders and economic gurus.

There was no shortage of statements, predicting that Malaysia's inflow of foreign direct investment would dry up, that the direct controls over the ringgit would shake investor confidence and that it was a desperate last resort move. These economists can be persuasive, but when a great many learned people overwhelmingly agree on something, it is only prudent to investigate their motives. These are the same people who said that Malaysia's problems could be solved by letting its companies go under and who encouraged us to accept measures that would have removed our ability to control the economy. In the face of evidence that orthodox remedies to the current economic blight in Asia are providing pain without any cure, we were told to accept advice from august bodies like the International Monetary Fund (IMF) with such persuasiveness that we were torn between being impressed by the credibility of their suggestions and a healthy scepticism about their effectiveness. While we dithered, the ringgit lost a third of its value against the greenback. Malaysian companies, even those that were well run and which were felt to be impervious, were seriously affected. The country then fell in line with its IMF-assisted neighbours - Thailand and Indonesia - and raised interest rates even though we did not borrow from the international money-lender to support our economic programmes. The country waited in vain to see the improvements that starving the economy of credit would bring. Instead of an end to the pain, businesses suffocated and property as well as financial companies fled to seek protection from creditors. While we waited for the promised miracle, the number of unemployed Malaysians swelled and the battered ringgit danced to the tune of the currency traders. We tolerated the suggestions of outsiders - who did not have Malaysia's interests at heart - until we could no longer do so. Malaysia imposed currency controls because it had no choice. Having considered what the rest of the world had to offer, it was decided that this Malaysian problem needed a Malaysian solution. Malaysia's monetary controls rubbed the world the wrong way, but this is not the first time that we have taken the high road. When Malaysia sounded the alarm on currency speculators, it was also ridiculed for suggesting curbs on their wheeling and dealing.

But there is no doubting the fact that controlling the comings and goings of the ringgit and effectively making the currency valueless outside the country has provided an immediate fillip to our outlook. Fixing the value of the ringgit, which at yesterday was RM3.80 to the US dollar, has immediately cured one of the most pressing problems - that of a burgeoning corporate debt caused by the depreciated ringgit. The clampdown on offshore trading of the ringgit has put a stop on the speculative attacks and provided an immediate certainty for businesses long beleaguered by the fluctuating ringgit. It is easier for foreign investors to come in when they know that the ringgit will be impervious to

external factors - enabling them to work out long-term costings without any hedging constraints. When it comes to choosing between pleasing its free market critics and survival, between theories and reality, Malaysia has come down on the side of prudence. The Government has decided that extraordinary times need extraordinary remedies. Datuk Seri Dr Mahathir Mohamad has again shown that we will defy orthodoxy when it benefits us. If nothing else, the currency controls have provided Malaysia with a welcome respite. Now it is up to the rest of Malaysia to make full use of this opportunity.

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