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Forex controls provide stability and predictability

Hardev Kaur

STABILITY and predictability are among the most important criteria for doing business anywhere in the world, whether in the developed or the developing countries. Many a time, investors and businessmen both local and foreign, have listed these two factors as being high on their priority list when deciding where to invest and do business in.

Malaysia offered these factors and many other incentives over the years. But the heightened and unbridled activities of speculators, especially in the currency and equity markets, has caused instability and unpredictability to prevail, thus making it difficult to plan for the future.

This instability and unpredictability prompted many fund managers and investors to rush out of the developing countries in the region. As Jeffrey Sachs, director of the Harvard Institute for International Development noted, it led to a "rational panic" with each trying not to be the last one out.

This panic rendered many democratically elected governments helpless as they were unable to plan ahead and safeguard the livelihoods of their people. The sudden devaluation of regional currencies and the fallout in the equity markets rubbed salt into the already raw wounds.

This, coupled with the austerity measures and tight monetary policies prescribed by the International Monetary Fund to the countries under its wing caused severe hardship. It resulted in companies and individual businesses being starved of the lifeline that was desperately needed to keep them afloat - an injection of funds at a reasonable price.

Undoubtedly, the financial crisis calls for an international solution. But in the absence of any concerted international action soon, countries like Malaysia must and should take pre-emptive measures to insulate their domestic economy from even more uncertainty and damage. Insulating the country from more adverse external forces and risks is essential and these measures need to be taken sooner rather than later.

The experience of other countries indicates that those that have instituted measures to insulate themselves from external developments have fared better in meeting the challenges of adverse global developments.

Bank Negara, in announcing the new measures, said that the move was based on a number of considerations. These included the need to limit the contagion effect of external developments on the Malaysian economy; to preserve recent gains made in stabilising the domestic economy and ensure stability in domestic prices and the ringgit's exchange rate as well as create an environment that is conducive for a revival in investor and consumer confidence and facilitate economic recovery.

The move is by no means isolationist. Malaysia as a trading nation cannot afford to isolate itself but it certainly needs to insulate itself from the risks and vulnerabilities of a hostile external environment.

This insulation will enable domestic measures to strengthen the economy to be implemented and to yield results. Malaysia needs to achieve macroeconomic and monetary stability to strengthen its fundamentals and build strong foundations for future growth.

Without this, success will be impossible and there are signs that the globalised and international instability may cause even more damage to the already weakened economy. Even now, there are signs that the crisis, which began in Thailand last July, has deepened and spread across to other

continents.

The latest developments in other regions and financial centres could give rise to another round of the contagion effect. There is thus every reason, in the absence of any concerted international effort, for Malaysia to protect its domestic economy from even greater instability.

The pre-emptive controls therefore, could not have been better timed. Even within the short period of three working days, the stability and predictability provided by the pegging of the ringgit to the US dollar at RM3.80 and the controls on ringgit trade are beginning to show results.

The stock market has gained more than 100 points since the announcement to close at 363.44 last Friday. The Kuala Lumpur Stock Exchange's financial index registered even heftier gains of 594.92 to close the week at 2,237.29 up from 1,785.10 last Wednesday.

Both institutional and individual investors are now moving into the market. Foreign direct investment was not affected by the move as these investments are here for the long term. Maurice Greenberg, Chairman of the American International Group (AIG) - which has substantial investments in Malaysia - in supporting the controls, noted in his letter to Prime Minister Datuk Seri Dr Mahathir Mohamad that "investors should be prepared to invest for a longer period rather than have the ability to move funds for the slightest reason".

The measures provide for greater certainty in the market enabling businessmen and entrepreneurs to plan ahead confidently knowing that there will be stability in the foreign exchange market with regards to the ringgit. They will not be caught unawares by sudden and violent currency fluctuations. Violent fluctuations and volatility are poison pills to a business' life.

While Malaysia's moves may be considered "shocking, unconventional and unorthodox" especially for a trading nation, they are by no means unusual. Many countries, including developed countries, impose capital controls to protect their domestic economies. Why not a developing country like Malaysia?

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