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KL measures not as bad as made out to be: Mr Yen

Hardev Kaur in Tokyo

TOKYO, Tues: Japan's influential Vice-Minister of Finance, Mr Eisuke Sakakibara, today defended Malaysia's exchange rate controls, saying they are "not as bad as they have been made out to be".

Nicknamed Mr Yen for the impact his remarks often have on the Japanese currency market, Sakakibara said world opinion is changing and the opposition to controls is beginning to ease.

As the world continues to grope for answers to the type of exchange rate regime that is needed to respond to the crisis, Prime Minister Datuk Seri Dr Mahathir Mohamad has made "a very bold policy decision", he added.

Sakakibara echoed Dr Mahathir's remarks in an earlier speech that "being a heretic is better than being colonised" but added that, "I think the world situation has changed lately and what the Prime Minister has said is no longer heretical."

The vice minister was a panelist at a seminar organised by the Mainichi Shimbun. The other panelists were Dr Mahathir and Japan External Trade Organisation (Jetro) chairman Noboru Hatakeyama.

Sakakibara's endorsement is the latest in a series of approvals from other economists, financiers, bankers and leaders for the selective controls imposed by the Malaysian Government since September 1.

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

Countries prospered under the fixed exchange rate regime and overcame all the difficulties they faced.

"So it is not a bad system", he said, adding that the problem now is that "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 job 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 cause.

"When you come to a stage where you see the bad effects of the market fixing and playing around with fluctuating exchange rates then we should be prepared to revise our thinking to open up our minds and see... whether the present system is good or bad and if we find that the fixed exchange rate would help the world's economy, we should examine it, perhaps modify or regulate it.

"But we should not shut our minds from considering alternatives," Dr Mahathir said.

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

He agreed with Dr Mahathir that markets are not perfect and markets cannot do everything.

"We have seen market failures in the past year. There are market defects. The question is what kind of policy responses should be devised to deal with the failures and defects."

Sakakibara said it is important to recognise that the current system of capital flows is a very unstable one.

He said Wall Street and the Western financial system are facing a crisis and are undertaking restructuring. The Japanese economy is also facing one of its most difficult times.

There is a world credit crunch and no private capital is going to flow across borders. Banks are withdrawing and so are the hedge funds. This is happening even in Japan where the banks are holding back credit, he added.

He predicted that countries in Latin America will have to pay very high interest rates soon. Therefore, he said, the coordinated Keynesian prescriptions of injecting public funds should be considered sooner rather than later.

Public sector funds should be mobilised and Japan is channelling US$30 billion (US$1 = RM3.80) to the Asian economies.

For a recovery of the global economy, Sakakibara said a Japanese rebound is extremely important because the US economy is in decline.

"I hope America will have a soft landing," he said, adding that Europe too will be heading towards a contraction and Latin America is "going into a really serious situation and they will be exposed to great dangers and risks".

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