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Malaysia's new policies are far from 'desperate'

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THE Far Eastern Economic Review cover story of Sept 10, titled "Desperate Measures" not only got its facts wrong but intimates that the actions of the Malaysian Government are panicky responses rather than carefully crafted policy options to stabilise the ringgit.

Once the ringgit's exchange rate is stabilised, the problem of the recapitalisation of the banking system and the serious debt situation of the corporate sector can be resolved as proposed in the National Economic Action Council's National Economic Recovery Plan.

It is incorrect to say that the ringgit is no longer freely tradeable. Capital controls have been introduced to prevent further hostile speculation on the ringgit.

The ringgit has been fixed at RM3.80 against the US dollar. It can still be freely exchanged with all other currencies. In fact, the new Exchange Control Rules allow for greater transparency in genuine trade and services-related transactions.

Further, a black market for the ringgit will only develop if it is intrinsically overvalued or if there is a perception that its value will be quickly eroded.

The creation of offshore ringgit deposits by Singapore banks with the tacit approval of the Monetary Authority of Singapore was clearly destabilising, and had to be stopped in Malaysia's interest.

In short, what Malaysia has done is to sever the link between the exchange rate and domestic interest rates as a stop-gap measure in the absence of international action to deal with adversarial short term capital flows and currency speculation.

Malaysia is not a "recession-wracked" economy. The choice of words in the Review's cover story is mischievous and misleading. Malaysia is in the early stages of a recession. If the 3rd quarter economic numbers turn positive, the danger of a full-blown recession can be avoided.

With the NERP policies and strategies now being expeditiously implemented, Malaysia is expected to register a small positive growth next year.

Datuk Seri Anwar Ibrahim was not ousted. He was sacked from his Government and party posts for conduct and behaviour unbecoming of a national leader.

No credit has been given to Prime Minister Datuk Seri Dr Mahathir Mohamad for bringing Anwar into Umno in 1982 and then putting him through a practical management development course on national leadership so that he could assume his mantle in the future.

The Review's journalists assumed that Dr Mahathir received intellectual backing from Paul Krugman, a credit that Krugman would like to claim, as implied in his open letter of Sept 1, to the Prime Minister.

The technocratic team at the NEAC, assembled and led by Special Functions Minister Tun Daim Zainuddin, is equally adept at coming up with appropriate and effective recommendations.

Datuk Fong Weng Phak did not resign as deputy governor of Bank Negara. Rather his term of office expired in July, as he explained in a recent letter to the Press. Fong said that the question of policy differences was an assumption by the Review.

In the case of the former governor, Tan Sri Ahmad Don, he had wanted to resign earlier but was prevented from doing so by Anwar.

The Review report states that "there is a reluctance by Malaysia to recognise the problems of bad loans". The NERP is a complete repudiation of this.

The report failed to acknowledge that the problem arose because of a speculation-induced asset deflation and the tight monetary policies ala International Monetary Fund implemented by Anwar.

It may also be recalled that Anwar decided to reduce the criteria for non-performing loans from six months to three months, thereby exacerbating the banking problem.

We need economic stability. That is the purpose behind capital controls. This stability is necessary for Malaysia to undertake long-term reforms.