

04/11/1998

Malaysian way gains acceptance

JEFFREY Sachs, the renowned Harvard economist, was one of the earliest to alert the world to the International Monetary Fund's (IMF) flawed handling of the Asian crises. On that count alone, the points he made about Malaysia's currency exchange rate controls deserve study. Were we really too late in imposing these controls, as Sachs asserted? Or has Sachs, like many foreign economists commenting on the controls at this early stage, a different understanding of the Malaysian measures? After all, even the basic premise of the controls, which is to insulate the economy and not isolate it from the rest of the world, seems lost to many.

Malaysia, like Sachs, was very early in trying to draw the global community to the possible flawed handling of the Asian crises by the IMF. But unlike Sachs and economists who are either pro or anti the IMF prescriptions, Malaysia actually happens to be one of the crisis-hit economies in the region. After Thailand, the contagion effect from the baht's devaluation caused by excessive and systematic currency speculation and market manipulation hit the Malaysian economy before it spread to Singapore, Indonesia, South Korea, Hong Kong, Taiwan and Russia. The reason Malaysia managed to survive the early onslaught was because its fundamentals were solid. At that point of time, it must also be remembered that many economists, investors and ratings agencies were actually blaming the Asian crises on corruption, nepotism and cronyism. Only later, much later, did the world come around to the view that currency trading, short-term funds and a poorly regulated global monetary system were the real culprits.

When Paul Krugman wrote in Fortune magazine propagating the merits of capital controls, nobody had seriously explored this idea. Controls, any form of controls, are taboo in the global financial world. They distort the economy, they are anti-market and they project a bad image. But at that point, the economies being helped by the IMF were only getting worse. Krugman suggested controls as a temporary measure and communicated this point to the Malaysian Government after Prime Minister Datuk Seri Dr Mahathir Mohamad announced the controls on September 1. Malaysia had never wanted to impose those controls but was forced to do so because the rest of the world was not doing anything to protect its economy or those of other developing countries. In this context, Sachs' point that Malaysia might have imposed these controls too late into the Asian crises is irrelevant. Too late is to have gone to the IMF without being able to turn back.

His view that these controls were unnecessary must be argued. There was no way anyone could have known at the time Malaysia introduced its measures what was in store for the crisis-hit countries or for Russia, the Latin American economies and Africa. Even Hong Kong was reeling from the pressures collectively placed on its markets by hedge funds and Taiwan was being openly hostile to the likes of George Soros, while the IMF, the Group of Seven, the World Bank and everybody else who made up the global financial community had no inkling of what to do.

The success of Malaysia's currency exchange rate controls must be measured by the confidence it has brought back. Sure, some foreign investors are still jittery about committing their money here but then they are jittery about putting this money anywhere today. The important thing is that the controls have started to move domestic economic

activities, banks are lending money and businesses are paying back what they owe. Sachs has a point when he said Malaysia's controls should have been aimed at checking the inflow of short-term funds in the first instance, but his advice - not so much Malaysia's controls - had come too late. As it was, there was a need to stop some Malaysians from parking their money in Singapore banks and elsewhere. The record shows that the controls are working, billions of ringgit have returned home and foreign investors are still as free as they used to be to take profits out.

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