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CONTROLS--JUSTIFIED

MORE SUPPORT FOR EXCHANGE CONTROLS

KUALA LUMPUR, Dec 7 (Bernama) -- The imposition of capital controls is not all that bad and exchange controls, like the ones adopted by Malaysia, was justified since it tackles the destabilising effects of capital flows without affecting trade, said an expert.

Ashok K Nath, chairman of Options Information Company (OIC) in an article in the December 1998 issue of "Asia 21" magazine said stability in exchange rates and in the stock market are desirable ends, he said.

Malaysia's selective exchange controls was aimed primarily to cut off the supply of ringgit to speculators who shorted the ringgit and the stock market. The controls has brought stability to the ringgit and the Kuala Lumpur Stock Exchange.

Stressing that decision to invest in a country should not be hampered when controls is implemented, Ashok aid : "So long as business sees its way to repatriation of profits, business should welcome controls."

Predicting other countries, even the developed ones would adopt some form of capital controls, he said, after China, India and recently Hong Kong and Malaysia, the Philippines, Thailand, Taiwan and Indonesia might follow suit -- each in its own way.

On the abrupt flee of short term funds that pushed up interest rates, pressured down exchange rates and ultimately fuel the financial crises, he said, this made government powerless to bring down interest rates since exchange rate would deteriorate further.

"However, if there were capital controls, a country could reduce interest rates and not fear a free-fall in its exchange rate," he said.

Ashok, who in the article quoted the growing support for controls by some of the world's prominent economists emphasized that capital and currency controls are not bad for business.

"Perhaps the best defence for controls is that the architects of the International Monetary Funds (IMF) charter wanted them to stay," he said.

He pointed to a report that quoted the two framers of the charter, Britains's John Maynard Keynes and Harry Dexter of the U.S. had expressed fear that capital flows would become an independent and disruptive force that would interfere with trade.

Keynes was quoted as saying: "It is widely held that control of capital movements, both inward and outward, should be a permanent feature of the system."

"As a result, the IMF charters allow member countries to freely impose capital controls. Need we say more?," asked Ashok.

But the U.S. through the IMF and the World Bank had insisted that developing countries, "unprepared as they were, go naked and cope with the free flows of capital" for its objective to outdo other countries, he said.

He added that the U.S and its allies were willing to let Asian and other developing economies slip and suffer further because this would strengthen their own bargaining power.

For Asian business, he said the answer to the effects of destabilising capital flows was to lobby against its government to impose some forms of capital controls and not to agree to the U.S.'s notion of freer capital markets.

Even the U.S. business should also lobby Washington in that the latter should not jeopardise freer trade to push for its agenda of freer capital.

Ashok stressed that freer trade is essential for business but freer

capital flows can wait especially when waiting means stabilising the economies, which is all the better for business.

For Asian policymakers, he suggested them to forget about (foreign) aid adding that dealing with the Japan and U.S. should be strictly business.

"Resurrect the East Asian Economic Caucus that (Prime Minister Datuk Seri Dr Mahathir foresaw Asia needs," he said.

He also said that Asian governments had no choice but to deal with the IMF and the World Bank "but trust your judgement, not theirs, in matters of the economy."

Like Malaysia, Ashok too blamed the financial crisis to the speculators, whose activities "does not add any value to our planet."

"Speculators should be categorised and accepted as being in the same league as terrorists. Both destroy innocent lives. One destroys real lives. The other destroys financial one," he said.--BERNAMA

AD KTC