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Practical and not textbook solutions seen for economies to recover

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ONE clear message came out from the recent conference on the Asian financial crisis: practical - not textbook - solutions are needed for regional economies to help them recover.

As no foolproof methods have yet been devised, discussions were mainly focused on the various stimulus measures and controls instituted by Malaysia - with much of the questions revolving around their effectiveness.

Prime Minister Datuk Seri Dr Mahathir Mohamad took centre stage, making his appearance on both days of the "International Conference on Managing the Asian Financial Crisis: Lessons and Challenges" held in Kuala Lumpur.

As First Finance Minister, he reiterated his stand on the need for currency traders to be regulated on a global level.

Dr Mahathir said if currency trading could not be done away with, then it should be properly supervised and regulated.

"This is possible if the big rich economic powers are willing to cooperate to enact rules and to enforce them," he said in his keynote address on the first day of the conference.

And in the dialogue at the close of the conference, he called for international rating agencies to revert to giving ratings only on request and only to those making these requests.

Dr Mahathir said these agencies have come to wield considerable power as countries and institutions pay a high price for their downgrading - with their ratings often being echoed by others.

Given these positions of influence, Dr Mahathir said: "Let's have a bit more transparency", - a position which many had high-handedly prescribed for Malaysia.

Another personality in the spotlight was Entrepreneur Development Minister and Second Finance Minister Datuk Mustapa Mohamed.

He defended the currency exchange rate controls, describing Malaysia's ability to implement the controls - inclusive of effectively making the ringgit non-tradeable outside the country - on its strong external position.

Malaysia imposed the controls in September and pegged the ringgit at RM3.80 to the US dollar to bring the ringgit back into the country and to reduce the ability of non-residents to trade in the ringgit.

Despite these controls, Mustapa said incidents of the ringgit trading in a black market at a rate lower than that fixed by the central bank were isolated and not the norm.

He also refuted arguments made against the new ruling requiring all money invested in the Kuala Lumpur Stock Exchange to remain in the country for one year before the profits are allowed to be repatriated.

Mustapa said there was no guarantee that the lifting of this T+12 months measure would attract foreign funds back to Malaysia.

He added that the country had experienced destabilising times last year, and dismissed fears there would be a mass exodus of funds come Sept 1 next year when many investors were expected to take their money out of the country.

He said a lot of the foreign money had already left Malaysia before the controls were introduced in September, thus he did not believe there would be capital flight problems next year.

Metrowangsa Asset Management Sdn Bhd chief executive officer Dr Ghazali

Atan called for these controls to be lifted, arguing that the ruling had the effect of stemming the inflow of investments and as a result, Malaysia is no longer on the list of global indices.

Earlier on, more economists spoke up in favour of the measures instituted by Malaysia.

Harvard Institute of International Development Professor Jeffrey Sachs went as far as to say Asian economies would be able to recover faster from the crisis without the aid of the International Monetary Fund.

In a videoconference session he said: "The IMF likes to camp on a long-term basis in troubled economies and I hope this will not be the case in Asia. The sooner they leave, the faster the recovery of the economies."

Columbia University Professor Jagdish Bhagwati said: "No doubt capital controls can help lower interest rates and then revive the economy", but advised that it should only be a temporary measure.

Penang-based Third World Network director Martin Khor said: "In these days of financial turbulence, they (the controls) may even be a necessary option."

Khor, however, warned this did not mean that such controls were a "panacea or magic bullet".

Bank Negara adviser Datuk Nor Mohamed Yakcop said the ringgit should be traded at RM3.50 to the US dollar in view of the economic and financial stability in the region, adding: "Things have been working very well and we plan to let the measures go on."

But, in summing up, YTL Corporation Bhd managing director Tan Sri Francis Yeoh pointed out that macroeconomic measures were well and good, but the ultimate responsibilities still lay with individuals and corporations to ensure they played their part in the nation's economy.

"Turning now to how corporates can cope with the crisis ...the time has come to stop finger-pointing and moral pontification.

"Now that the economic shoe has dropped, corporates need to show leadership by taking bold steps to intensify their core business activities, focusing on those areas they do best."

As an example, he illustrated how YTL Corporation had raised ringgit funds for its power project in 1993 despite the prevailing practice to raise such funds from foreign sources and denominated in US dollars.

"It only makes sense to raise funds in ringgit when we receive our payments from Tenaga Nasional Bhd in ringgit," adding that opting for foreign currency funds for infrastructural projects carried inherent risks as it was not possible to always predict what the exchange rates will be like 15 years on.

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