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Pressure must be kept up

IT is evident that Malaysia's bold currency and exchange control measures, announced on Sept 1 to insulate its economy, have become a world talking point. While acknowledging this month that Malaysia's attempt to control capital flow may be controversial, Special Functions Minister Tun Daim Zainuddin noted that it has stirred international debate.

The signs are not ominous. Far from it. In fact, the feedback from abroad is heartening. Those who were quick to condemn the move as retrogressive are now giving Malaysia the benefit of the doubt. Malaysia which resorted to selective controls to give it a breather to concentrate on the domestic economy and made no apologies for it, has indeed become a unique case study as the world watches the outcome of its experiment.

But Malaysia, fully aware of the slippery slopes and the adverse foreign media write-ups, is far from gloating as its policy package to curb speculation on the ringgit, fix the exchange rate and reflate the economy shows signs of gaining acceptance. There are even signs that it will be proven right. The performance of the domestic economy is "quite encouraging" with reserves up and the business environment improving. These notwithstanding, roadshows to make the international community understand better the rationale behind Malaysia's move continue.

Prime Minister and First Finance Minister Datuk Seri Dr Mahathir Mohamad and Daim drove home the point last week that Malaysia will consider a reversal of its measures if the international community brings about a change towards a more accommodating world financial architecture resulting in stability to currencies. Malaysia is not against speculation but manipulation, the Prime Minister told his Tokyo audience.

Hedge funds are clearly anathema to an orderly world financial system as manifested by the recent Long-Term Capital Management debacle. LTCM ran up losses of around US\$3.5 billion and was saved from failure only by a rescue package financed by private banks and arranged by the New York Fed. The Fed chairman defended the action on grounds that the bankruptcy of LTCM could have posed "severe risks" to global financial markets.

To allay residual fears over capital control, Daim told his Prague audience that Malaysia is neither anti-market nor anti-business. Dr Mahathir spoke of the need for Malaysia to be business-friendly and to depend on business to develop the country. Indeed, as a trading nation Malaysia would be cutting off its nose to spite its face if it repudiated the vital foreign direct investments. Needless to say, after the lessons of the Asian economic crisis, it abhors short-term funds but welcomes FDIs in productive sectors. The recently concluded deal between British Telecommunication Plc and Binariang Bhd, in which the former is taking a 33.3 per cent stake in the latter for RM1.8 billion cash, is a pertinent case.

The unwavering BT commitment speaks eloquently of its confidence in Malaysia and its understanding of the country's drastic move. Similar confidence has been expressed by investors from other nations and this augurs well for a speedy recovery.

On the international front, Malaysia is clearly not alone in voicing disappointment over the outcome of this month's international effort to avert a global meltdown. The gathering in Washington of the world's financial leaders "proved to be long on alarming rhetoric and short on action", as one paper rightly pointed out.

In the light of the perilous world economic situation, there is growing consensus for international regulation of global capital flow. As the leverage of the LTCM unfolds, likely to bring more surprises and failures, pressure may be brought to bear on the major industrialised nations to agree to curb the manipulative hedge funds. Already major American banks are putting a squeeze on credit offerings in the face of heightened risk perception. Nations have to keep up the pressure.

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