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Reining in the ringgit

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"IT'S the mother of all drastic measures," says a Singapore currency analyst; "... doing the unthinkable", echoes another; "an IQ crisis", cries a London-based economist; "The government is shooting themselves in the foot ..."

While free market advocates jeered at Malaysia's radical effort at reviving her economy with Prime Minister Datuk Seri Dr Mahathir Mohamad's set of "shocking measures" four days ago, those who have long fought the North's hegemony in trade and politics gave a lusty cheer.

One such organisation is Third World Network. Says director Martin Khor: "It is a bold move."

For the plan to succeed, Malaysians must, right or wrong, stay united and give full support to the government, to prevent a full-blown economic recession.

Despite recent political events, it is important not to lose sight of the battle to resuscitate the economy.

Khor, an Oxford-trained economist, believes that rather than harp on the disadvantages and inconveniences arising from such move, Malaysians should view the exercise in a broader perspective. Putting a cap on currency speculation, he says, thereby eliminating the supply and demand of the ringgit abroad, can help save jobs and stabilise the domestic economy.

This should be welcomed, he explains, because failure to act will certainly make matters worse. It is a necessity; a risk worth taking, he stresses, in light of a world economy that favours rich and powerful nations.

"If we succeed," he says, "we will be charting a course for others to follow." Indeed, countries whose economies have gone into a tailspin following attacks on Asian currencies are looking to Malaysia. The exception is Thailand, which has officially announced that it will not emulate Malaysia.

Even renowned economist Paul Krugman, a critic of our economic policy, concedes that Malaysia is moving in the right but very risky direction. In an open letter to Dr Mahathir in Fortune magazine, he says: "It is, as many have pointed out, a stop-gap measure. There is no shame in that: some gaps desperately need to be stopped."

What does this mean to the layperson? What relevance does the RM3.80 to US\$1 exchange rate have to them? What does the Oct 1 deadline for the return of offshore ringgit mean?

For one thing, says Knight Capital (a lending company) chief executive officer Rashpal Singh, the fixed exchange rate means uncertainty over the value of imported goods no longer exists. As exports and imports are paid for in foreign currencies, Malaysian consumers need no longer worry about fluctuating prices of essential goods.

This is vital, because as a small nation, Malaysia still relies heavily on imports of basic commodities such as rice, wheat, milk fat and milk solids, which must all be paid for in US dollars. Every time you down your teh tarik at your favourite stall, remember you are using up the country's hard-earned forex; after all, some of the ingredients in the tea's condensed milk are imported!

Even chicken, a major source of protein for Malaysians, is, in a very real sense, imported. The reason: though chicken is reared locally, the maize the birds are fed is largely imported.

With regard to offshore ringgit, the forced return of Malaysia's currency to the country means banks will have more money. Those in need of loans with which to keep their businesses afloat will have a better chance of borrowing at lower interest rates, adds Rashpal.

Capital controls, says Khor, ensure an end to currency manipulation. The present economic situation is so unstable, made possible by a liberal forex regime (the trading of currencies), that unorthodox measures are warranted.

Conventional economics dictates that high interest rates on loans discourage spending and facilitate a better re-allocation of resources. But without capital, how will cash-strapped business survive? How can people employed in currently non-cash generating industries keep their jobs?

Khor argues: "You can't make people more efficient by destroying the GDP." (The Gross Domestic Product is a yardstick of a country's economic well-being).

And what of the effects from the control of ringgit on the stock market? An investment analyst points out that the share market is baffled, and will continue to be so because non-Malaysian investors are forbidden to repatriate proceeds from the sales of Malaysian stocks until 12 months after purchase.

While acknowledging that the move to control capital flows is necessary, what is really needed, says Khor, is to restore confidence. "Reforming resource re-allocation," he says, "must be in tandem with capital controls."

There is also a general consensus that the banking system must be more transparent when granting loans. They should be given to people in productive sectors that generate sustainable long-term income to the nation, rather than to those who have little but their connections to recommend them.

More important, investment in human capital must not be neglected, as it is crucial to the nation's survival. At the end of the day, it is human intelligence that determines Malaysia's competitiveness. As such, allocations for education, healthcare and basic amenities (piped water, sanitation and electricity) must continue, if not multiply.

Only when there is prudent spending, substantial saving and a strong foundation based upon the capitalisation of human resources, can we remain competitive - vital in order to survive and be a part of the global economy.

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