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Shock tactics for shocking situations

WE may or may not have shocked the world with the exchange control measures announced by Prime Minister Datuk Seri Dr Mahathir Mohamad and Bank Negara yesterday. But we live in shocking times. We have been shocked by an international financial community that has passively watched as the economies in this region were systematically reduced to half or less of what they were a year ago. We have been shocked by the double-standards of the West and the International Monetary Fund, of the different medicines they prescribe for themselves for the same illness that we were said to be suffering from. We have been shocked by their assurances that we must go down before we can bounce back. We have been shocked enough.

The measures were not for shocking the world in return, they are meant to safeguard the Malaysian economy against elements that have brought several economies in the region to their knees, begging for food for their people, medicine for their sick and milk for their babies. Hong Kong, with its reserves of nearly US\$100 billion (US\$1 = RM4.05), is fighting speculators. Taiwan has barred any links with funds related to Mr George Soros, the currency speculator much revered by governments and international bodies in the West. A certain country in this region would prefer to undermine its neighbours to ensure its survival. Malaysia has come up with these foreign exchange control measures to defend its own economy from sliding further, so that it does not have to go around with bowl in hand for food, medicine and infant formula.

As announced by Bank Negara acting governor Datuk Dr Zeti Akhtar Aziz, the exchange control measures are largely aimed at bringing ringgit in offshore markets home, denying speculators access to the currency while minimising the impact of short-term capital flows on the domestic economy. Activities affected apart from those in ringgit external accounts include general payments in ringgit between residents and non-residents, payment for exports and credit facilities to non-residents. Stricter controls are now in place for payments by residents on investments abroad, credit facilities in foreign currencies and the ringgit from non-residents, ringgit securities and import and export of currency notes and other financial instruments. Offshore banks in Labuan are also no longer allowed to trade in ringgit instruments. Dr Mahathir said before the end of the year, the exchange rate for the ringgit will be fixed. This will allow the Government to reduce interest rates and help businesses to operate and make profits.

These measures certainly are a shift away from the free market as the West wants us to understand it. But these controls are not going to affect foreign investments in this country. Foreign companies are still allowed to send home the profits they make from their Malaysian operations. Trade is not going to be jeopardised; in fact, it should benefit from a more stable ringgit after the currency has been fixed. China, with its capital controls, has proven that they are practicable and has largely been insulated from the regional financial crisis because of these controls. For Malaysia, a supporter of the free market, to resort to exchange controls is a drastic move. But as Dr Zeti said, this is the best solution for Malaysia now. We have to act on our own as the international community has failed to come up with any meaningful solution to the global financial turmoil.

Things will get worse and may soon get out of hand. The Dow Jones

plunged to its second-largest point loss on Monday as stock markets in Europe slid and those in Asia "went down like dominoes", as one wire report described yesterday's declines in Hong Kong, Taiwan, Singapore and Malaysia's bourses. The commentators are grappling for reasons, blaming Wall Street, a poor choice of a prime minister by the Russian president and Malaysia's exchange controls for the poor performance. Like the international community, the commentators are losing sight of what has brought about the economic and financial troubles, why Russia may go back to Communism, why Malaysia decided to adopt the controls, and why it does not matter anymore to millions in Indonesia, South Korea and Thailand.

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