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CONTROLS-SPECIAL REPORT

SPOTLIGHT ON CAPITAL CONTROLS AT WORLD BANK/IMF ANNUAL MEETINGS

By: Salmy Hashim

WASHINGTON, Oct 8 (Bernama) -- A heated debate on capital controls as a strategy to stabilise economies in crisis is gaining momentum at the annual International Monetary Fund (IMF)/World Bank meetings which ends here later today.

Malaysia's "shock therapy" jolted world markets when the government announced in September that it was fixing the ringgit at 3.80 to the dollar and required a one-year wait on capital gains made at the stock market. In August, Hong Kong intervened to shore up its equity market, thwart speculators and defend its currency.

Malaysia's Second Finance Minister, Datuk Mustapa Mohamed, who met Hong Kong's Financial Secretary Donald Tsang earlier Thursday, said "Hong Kong is one of the very few which sympathises and understands Malaysia's measures to impose selective currency and capital controls."

When Prime Minister Datuk Seri Dr Mahathir Mohamad condemned the role of speculators in precipitating the crisis and called for some measure of control and regulation over currency traders at the last annual meetings in Hong Kong last year, his idea was practically jeered and labelled as "crazy" by the Hong Kong media and markets.

After being attacked by currency traders, Hong Kong, the centre of free market and capitalism, is clearly switching sides.

Mustapa said Tsang was disappointed with this year's meetings because there was a lot of talk but no progress on the issue of making currency traders' activities more transparent nor was there any specific time-period for action from the developed G-7 nations nor from the IMF.

"As long as a solution is not found, many more currencies will be attacked and many more countries will suffer," Mustapa said.

In fact, Malaysia and Hong Kong have agreed to join efforts in gaining more world support for more transparency in hedge fund activities and to establish a regulatory body to oversee the orderly functioning of the international capital markets, especially currency trading, Mustapa said.

At this point, voices condemning capital controls are louder than those in favour of some controls to head off financial crisis. The number of those in favour, including economist Paul Krugman of the Massachusetts Institute of Technology (MIT), may be gaining strength, especially if what Malaysia is doing works.

World Bank chief economist, Joseph Stiglitz, told bankers on Monday that some controls on short-term capital inflows is a leading strategy for heading off global crisis.

In a world of ever more frequent and painful banking and currency crisis, domestic reforms alone will not head off turmoil unless international policies are also put in place to temper and prevent crises, he said.

The World Bank economist said international groups and institutions can play an important role in encouraging sound policies and persuading investors that some restraints on capital flows are an insulation against risk and do not inhibit investment.

A senior international banker at HSBC, Chi Lo, told "Emerging Markets," that short-term controls could provide a breathing space while government reforms their banking system. "I think it's do-able, but they [the Malaysian government] have to fix the banks first," he said.

Tim Condon, an economist at Morgan Stanley Dean Witter, said the idea

of capital controls has "waxed and waned" but believe that "we'll see a period of greater acceptance."

Meanwhile, Mustapa who has held many discussions with senior World Bank and IMF officials here, including Bank President James Wolfensohn and IMF Managing Director Michel Camdessus, said the IMF, in particular, was initially "highly critical" of Malaysia's measures but there are signs of a "change in perception."

The IMF agreed that Malaysia's actions do not contravene any IMF article of agreement but "they remain opposed to Malaysia's line of thinking," Mustapa said.

The minister said he had been explaining Malaysia's control measures to his counterparts and emphasising to them that these controls had only been imposed for the past six weeks.

"It's too early to talk about an exit strategy. Give us a chance to make it work." -- BERNAMA

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