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The high price of independence

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THE international media, it seems, loves Malaysia for the sensational headlines on what their correspondents construe as our economic and political misdeeds.

Nowhere is this attitude best seen than the recent Apec meeting and Abac summit where many foreign journalists flocked in like grand inquisitors - more concerned about condemning Malaysia's imposition of partial capital controls than seeking clarifications or removing misinformation.

At the Asia-Pacific Business Advisory Council's parallel session on financial services where Bank Negara Deputy Governor Datuk Dr Zeti Akhtar Aziz was the lone panelist, they skipped past her explanations and focused instead on how to advance their argument that Malaysia risked bringing on another economic Dark Age.

Even as she was fielding questions on the capital controls, a journalist asked another behind, "What's your take on this?" "Protectionism", the reply came.

Eyes glazed, mind made up. The outcome is all too known: biased and inaccurate foreign Press commentary.

Their reports, even prior to the Asia-Pacific Economic Co-operation meeting, dripped condescension.

The gist was all too familiar - be it in Financial Times or International Herald Tribune: our measures are the malevolent kind that insulates the economy, we are retreating into protectionism or as suggested by The Economist (Sept 26), Malaysia "will unravel the world's 50 years of global trade co-operation."

At the Abac summit, Prime Minister Datuk Seri Dr Mahathir Mohamad assuaged such fears by pointing out that Malaysia was far too insignificant to "do anything to affect the world's economy adversely or otherwise".

Despite tireless explanations by national leaders and bureaucrats during the Apec meetings, their rhetoric was more strident still. The Economist (Nov 21, "Under Control?"), with obvious but selective references to Zeti's explanations on the capital controls during the parallel session, declared Malaysia as "still unrepentant".

Going by the way they weaved their arguments, many among the foreign Press did not - and do not - consider the substance of official explanations important enough to report accurately what it meant.

To consider whether the capital controls make sense would require learning more about an individual country's economic situation but perhaps, with their hyper-adversarialism mentality, they would rather not put themselves in circumstances that stretch their views, preferring to find things that already fitted in what they know of and pre-judge.

So, "substance" is about as substantial as the allegations that Malaysia closed its borders; foreign investors are shunning us or; this is a Jew-hating country.

Since hysterical half-truths are easily substituted for real data, commentators in the foreign Press - unlike university-based scholars such as Jeffrey Sachs, Paul Krugman, Harvard's Dani Rodrik and Columbia's Jagdish Bhagwati - who rely on these shreds of news write in a form that uses a veneer of scholarship to dress up arguments advancing their political agenda.

Hence, the likes of Dr Edwin Feulner (IHT, Oct 22, "Send a message to

(Dr) Mahathir") who contended Malaysia had practised protectionist measures "past and present" and had sealed off its borders to outside trade.

The worst effect of this is that vital issues are trivialised before they have a chance to be tested and explored. They are condemned before passing through the stage of serious attention.

One example: The foreign Press' reactions when Dr Mahathir first raised the subject of currency speculators last July. Then, very few with intellectual honesty such as Universiti Malaya's K.S Jomo, not known to be a pro-establishment person, argued that to dismiss Dr Mahathir's contention would be akin to throwing the baby out with the bathwater.

It is easy to see how misconceptions over our partial capital and currency exchange controls arise. The term "capital controls" evokes much dread - which is why it should be used with care. Evidently, it is not.

Contrary to foreign Press reports, Malaysia does not practise total capital controls but selective ones (which do not cover current account), and there is a great deal of distinction between the former and latter.

The general definition of capital controls is the imposition of restrictions that affect the capital account of a country's balance of payments - a wide-ranging embrace of restrictions that inevitably leads to the closure of borders.

But our selective controls, which include the one-year holding rule on Foreign Portfolio Investments and limits on foreign ownership of equity capital in the financial market, are not that dismal in reality.

The controls are short-term measures to protect the economy from the turbulent impact of short-term capital flows or volatile foreign portfolio capital so that the real economy can be revived in conditions of exchange rate stability and reasonable interest rates.

They exclude foreign direct investments.

As Universiti Sains Malaysia international finance lecturer Dr Subramaniam Pillay points out: "Foreign Portfolio Investment capital is more footloose than Foreign Direct Investment since it can leave on the spur of the moment as witnessed in the (East) Asian crisis, and small, open economies like Thailand and Malaysia are particularly vulnerable due to the large size of capital flows relative to the size of domestic capital market."

Zeti says: "The early stage of the crisis saw huge transactions which were not carried out by domestic or local corporations. The size of these transfers indicated they came from large foreign players - be they investment bankers or hedge fund operators. It was the huge outflow of ringgit, not foreign exchange, that made the country vulnerable so much so that it had to impose selective capital controls."

"Offshore ringgit was attracting deposit rates of between 20 per cent and 30 per cent (in a neighbouring country) compared with domestic rates of about 11 per cent. The question then: Who would be willing to incur high borrowing costs to get their hands on ringgit funds? We realised we were made vulnerable by currency speculators, whether from Wall Street or Hong Kong or elsewhere, who were carrying out large-scale selling of ringgit offshore."

She adds that raising domestic rates to compete with offshore ones would not have been viable so the remaining alternative was to impose exchange currency controls to contain the internationalisation of ringgit.

"Malaysia did not have a balance of payments problem and markets indicated that the ringgit was not overvalued, so why should it be put under pressure to devalue? Nor was it necessary to devalue the ringgit to maintain the country's export competitiveness."

As Dr Mahathir said when opening the Abac summit, the furore over

Malaysia's decision to impose capital controls was unreasonable since it had not hurt anyone except currency traders.

The fixing of the ringgit to the US dollar had created a stable investment and business climate.

The foreign Press seems hell-bent on accusing Malaysia of abusing capital controls to delay much-needed structural reforms.

Although Malaysia has made her stand clear on the need for regulatory controls over speculative funds, that has not blinded the nation to the task at home.

As Zeti explains: "It is necessary to differentiate between imposing short-term measures to deal with the immediate problems and correcting structural weaknesses using medium to long-term solutions."

The adverse commentaries smack not so much of concern for free marketism but a calculated political move to undermine the country's present leadership.

What some in the West really want is economic reforms (read: full entry and no limits on foreign equity) and political revolution rolled in one.

Their ceaseless and painful contortions about Malaysia's economic and political situations leave them open to the twin charges of hypocrisy and imperialistic opportunism.

The nub of the matter is that Malaysia's partial capital and currency exchange controls have not been approved by "The Manufacturing of Consent Club" (read: the likes of Wall Steet Journal, Financial Times, UK's Times, and The Economist, among others).

But should they give their eye to these measures, we'll be sure to hear the applause of approval from all sides.

Malaysia is experiencing the developing-country phenomenon of "little children should be seen but not heard".

Malaysians are learning that it is not comfortable to speak one's mind and not to kow-tow to powerful interests.

Such is the price of independence.

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