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World comes around to Malaysia's way of thinking

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WHETHER they like to admit it or not, many world leaders, decision makers, economists and analysts are coming around to Malaysia's way of thinking.

Some of them are now speaking the same language as Malaysia and advocating the same remedies for the current currency crisis - insulate, stabilise and revive the economy with controls. These include the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (Unctad), the Hong Kong authorities, the Philippines, India, Britain, US President Bill Clinton and Mr George Soros.

Among the measures gaining support are reducing interest rates, increasing liquidity, providing credit to productive sectors, insulating the domestic economy, regulating hedge funds and speculators as well as imposing a tax on foreign exchange speculators.

The modern civilised world needs rules and regulations but, as Indian Finance Minister Yashwant Sinha notes: "We have an international system ... which is totally devoid of discipline at the moment."

"There are no rules of the game. There are no guidelines. It is only the law of the jungle or the lack of it. There is a need for an international consensus, a need to prevent rogue elephants who roam financial markets from trampling on national resources". He adds that the international community would have to "devise norms" to control the situation.

Malaysia has taken the first step towards devising "norms" with currency controls. The country has been criticised in some quarters but it is showing the world the way forward. It will help stabilise the economy which in some instances could be spinning out of control and spiralling ever faster downwards if it is left to the "free market forces of globalisation and liberalisation".

Malaysia with its controls on short-term funds and measures to render the ringgit untradeable outside its geographical borders may be the forerunner in the use of such short-term controls, thereby bringing much needed sanity to the world's financial markets.

Instead of dismissing the Malaysian measures are being "draconian", ineffective and a step backwards, they should be viewed in the overall context. According to Salomon Smith Barney, these controls must be weighed against three factors:

- \* Malaysia's long record of liberalisation under Prime Minister Datuk Seri Dr Mahathir Mohamad;

- \* Reform measures taken since the beginning of the currency crisis and policy pronouncements in other areas since the recent change in foreign exchange policies; and

- \* Malaysia's large external sector.

Despite the criticism of Malaysia's controls by the IMF's first deputy managing director Stanley Fisher, the Washington based organisation itself has been discussing controls, a fact confirmed by the Fund's Asia Pacific director Hubert Neiss.

The debate within the IMF itself centres on whether it should condone the use of exchange controls by developing countries to regulate short-term capital flows and ease the pressure on their currencies.

The Fund's 1998 annual report released in Washington DC on Monday revealed that "a number of directors saw merit in imposing selective capital controls to limit the severity of the currency depreciation in the aftermath of an exchange rate crisis, as well as reduce the risks of

crises in the first instance".

Neiss said that discussions on short-term capital controls are going on and added that there is a definite shift in favour of controls and to check the unbridled movement of speculators.

The London-based Financial Times, in supporting the controls in its editorial earlier this month, said that there is "an argument for temporary capital controls in times of crisis". The crisis has been upon us for more than a year now and the issue at hand is how to resolve it.

Many, including UNCTAD, argue that "exchange rate policies and controls over capital movements merit particular attention", adding that "there is no reason to condemn managed-exchange-rate regimes and sacrifice currency stability in the interests of free capital mobility".

While analysts and fund managers were quick to label Malaysia a "pariah", the world financial situation today calls for a different policy initiative - which will first stop the decline, reverse it, stabilise the economy and then enable policies to take effect for improvement.

Salomon Smith Barney, the Government's financial adviser, notes that the policy initiative should improve the Government's ability to bring forward the timing of economic recovery. By doing so, the new measures will help reduce the damage to corporate Malaysia's collective balance sheet, which in turn will reduce the level of non-performing loans and ensure greater success in corporate debt restructuring.

The New York-based adviser says the new strategy is a "low sovereign debt strategy", adding that it is far easier to restructure banks in a weak but stable economic environment than in a weak and declining one.

Another international analyst, JM Sassoon, says businesses can now normalise operations and revive business plans given the return of certainty in the foreign exchange market. In addition "Malaysia will be able to get out of the recession without having too many companies going bust and too many banks collapsing under the weight of bad debts".

While foreign investors may shun Malaysia initially, they will surely set aside their reservations and return when the measures prove effective. And with the new measures, "investors need not suffer a rude shock brought about by a collapsing ringgit".

According to Unctad, there is no reason to condemn managed-exchange-rate regimes and sacrifice currency stability in the interest of free capital mobility. The alternative of freely floating rates, combined with capital mobility, would undermine currency stability with attendant consequences for trade, investment and growth.

However, world leaders wishing to follow in Malaysia's footsteps must also remember that no two economies are alike. The dismal results of the IMF's prescriptions for Indonesia, Thailand and South Korea have more than proved this fact. It is time therefore, as Salomon Smith Barney says, to "throw away the cookie cutter, one size does not fit all".

New initiatives and approaches are now required and Malaysia has taken a bold step with its currency controls.

The world economy has undergone dramatic changes and the conventional remedies and reforms have not only failed to work, but have also made the situation worse. It is time for unconventional remedies.

Sir Arthur Salter, writing on the World Economic crisis in 1932 could well have been describing the situation today when he wrote: "... we are now between two different systems. On the one hand, there is the old competitive automatic adjustment of changing prices, to which we were accustomed before the war, the changing price adjusting supply to demand; this is now less effective because in a hundred ways competition is either being stopped or impeded or changing its form."

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