

16/07/1999

## Capital controls aid Malaysia recovery: Think-tank

Sreerema Banoo

MALAYSIA'S decision to impose selective capital controls is not a surprise. That no other Asian country hit by the 1997-98 financial crisis exercised the option is, says the head of a Washington-based think-tank. Rather than harming the economy, as Malaysia's detractors claim, the measures implemented in September last year have contributed to its recovery, said president of Economic Strategy Institute, Mr Clyde Prestowitz Jr.

Chile's success with its limited form of capital controls, and the fact that countries like China and Taiwan which impose tight capital market restrictions were less affected by the crisis, point to the benefits of such measures, he added.

Malaysia was justified in taking tough action to stem the slide in the economy, as can be seen from the fact that the country is recovering, he said at a press conference in Kuala Lumpur at the end of a four-day visit to Malaysia.

"Capital controls have done no harm and probably contributed to economic recovery."

Asked if he felt the controls should be lifted anytime soon, Prestowitz said Malaysia recognises that such measures should be temporary.

"Your Government is aware of the dangers and risks in capital controls and I think they are looking at the situation and recognise the need to maintain an environment conducive for confidence," he said.

The institute is a non-profit, non-partisan research centre specialising in issues related to globalisation and competitiveness.

While here, Prestowitz, who was also US Acting Assistant Secretary of Commerce and counsellor to the US Government on economic relationships with Japan, had discussions on the economy with Prime Minister Datuk Seri Dr Mahathir Mohamad and First Finance Minister Tun Daim Zainuddin. He was also briefed by officials from the Ministry of International Trade and Industry, Bank Negara Malaysia, the National Economic Action Council, Pengurusan Danaharta Nasional Bhd, Danamodal Malaysia Bhd and the Kuala Lumpur Stock Exchange.

"Malaysia seems to be on the road to recovery...exports in electronics have strengthened and the price of oil has increased.

"The Government's fiscal stimulus has also created greater domestic demand," he said.

Recapitalisation of the banking sector and removal of non-performing loans are making good progress, and so is the restructuring of affected industries.

"All these factors are creating a better path for continued economic development and confidence," Prestowitz said.

The greater stability in the economy is also aided by the recovery of other regional economies like South Korea and Thailand.

"Over the short- and medium-term, Malaysia's prospects are reasonably good," he said.

However, he cautioned that uncertainties remain, for example China is in deflation and the Beijing Government is facing difficulties restructuring state-owned enterprises.

Looking ahead, Prestowitz said Malaysia has to diversify its economy and move into higher technology and value-added industries, adding that the Multimedia Super Corridor is a move in the right direction.

He was in Kuala Lumpur as part of a fact-finding trip that includes Japan, China and Hong Kong.

(END)