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CAPITAL CONTROLS

CAPITAL CONTROLS MAY BE MAJOR TOPIC AT WORLD BANK/IMF MEETINGS

KUALA LUMPUR, Sept 18 (Bernama) -- The selective use of capital controls is likely to be a major issue at the annual meetings of the International Monetary Fund (IMF) and the World Bank in Washington next week, says IPS journal.

In publishing a report originating from Mexico City, the daily's Sept 16 issue said unless the major western countries heeded Prime Minister Datuk Seri Dr Mahathir Mohamad's call for a new global financial architecture that would protect developing countries from the volatility of short term capital, then many developing countries would have to look at the option of controls as a sort of insurance.

The report, entitled, "Malaysian Success Spawns New Thinking on Controls", quoted William Dillinger, one of the authors of the World Bank's 1999-2000 World Development Report, as saying that five years ago the conventional wisdom was that controls were always bad and there would be capital flight if they were imposed.

"Now, there is a little bit of doubt about that position," he said.

However, Dillinger did say that the use and effectiveness of the controls would vary from country to country.

He, however, emphasised that developing countries should seek to strengthen their financial institutions and create a framework for attracting long term investment capital. These measures include defining the rights and obligations of multinational investors.

The report also said that the most surprising endorsement of Malaysia's selective capital controls came from the IMF which had opposed them last year.

This followed an IMF board meeting in July whose members agreed that the controls had produced positive results than originally expected. --

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