

03/09/1999

Controls successful as they were not draconian: PM

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MALAYSIA's selective capital controls succeeded because they were not draconian, not heavy-fisted, in no way punishing, or even of inconvenience, Datuk Seri Dr Mahathir Mohamad told a symposium attended by some of the world's top economic policymakers and financial experts. The Prime Minister said as International Monetary Fund (IMF)'s managing director Michel Camdessus had conceded, one reason why Malaysia's strong but selective controls were successful was because it was "a soft system of controls".

Dr Mahathir said this when opening the International Symposium on Currency Controls and Asian Monetary Cooperation in Kuala Lumpur yesterday. It is organised jointly by the Institute of Strategic and International Studies, Japan External Trade Organisation and the Mainichi newspaper of Japan.

The symposium was held to review the currency exchange rate controls Malaysia had introduced on September 1 1998 in response to the raging economic crisis in the region then.

Dr Mahathir recalled that when the measures were introduced, the critics said "we were absolute idiots. Disaster would immediately strike. Malaysia was `kaput'. Finished."

Apart from the "soft" nature of the capital controls, Dr Mahathir said a second very important reason for the success of the measures was Malaysia's successful export drive.

"The foreign exchange came in by the buckets. Contrary to the warnings of our detractors, there was no shortage of foreign exchange and there was no liquidity problem.

"We have to be firm but we had the wherewithal to operate what Camdessus called `a soft system of controls'. Malaysia was flushed with funds. I would not recommend any country to try exchange controls if they are going to fail to generate substantial trade surpluses."

As at the end of August, Malaysia has registered 21 consecutive months of trade surpluses.

The third reason for the success, Dr Mahathir said, is the fact that Malaysia was very sincerely trying to guarantee the stability of the ringgit, not its value.

"We wanted a fixed rate, not a high rate for the ringgit."

Dr Mahathir said the Government sought to stabilise the ringgit at a reasonable level, not at an overvalued level for technical stabilisation reasons and because Malaysia always had its exports and national competitiveness at the forefront.

Malaysia, he said, did not try to achieve a rate for the ringgit which the fundamentals could not justify.

"Because the ringgit was reasonably valued, there was never a rush or a reason to convert to foreign currency unnecessarily."

Another reason for the success of the measures was their ability to quickly restore confidence in the stock market, in the ringgit and in the real economy.

"Without this rapid, almost overnight restoration of confidence, we could not have succeeded. Had we seen riots in the streets, had we suffered political instability, confidence could not have returned." Tied to the confidence and the optimism was that the controls were selective, the Prime Minister said. "(The controls) took the most

meticulous way not to in any way hinder trade or affect the repatriation of profits."

Also important fact was that foreign direct investors did not pull out. "More foreign direct investment in fact flowed in. Not surprising since exports were booming. Investors laughing all the way to the bank did not close or reduce their operations. Even equity investment recorded a substantial net increase as they chased profits on a fast rising stock market."

Some external factors also helped ensure the success of the Malaysian controls.

"The hedge funds had beaten a hasty and forced retreat after the Long Term Capital Management fiasco. Their backers and bankrollers had become much more cautious.

"The currency stabilisation in East Asia and the economic recovery in East Asian economies have been a great help.

"We were and are fortunate that no one has followed or said that they intended to follow Malaysia's example. A heretic can be tolerated, but not to heresy.

"We would have been punished by global capitalists and the powers-that-be had we spawned an intolerable heresy."

Dr Mahathir said the measures also owe their success to "the pragmatism, unity and the will of the Malaysian people who found the will to stay united".

Earlier in his speech, he recalled how the critics had predicted that Malaysia was "kaput" with the introduction of the selective capital controls.

"When it was clear that disaster had not struck, that Malaysia was not 'kaput', not finished, we saw the argument that while death was not at hand, the Malaysian economy would be crippled. The medium-term effects would be enormous.

"When it became clear that Malaysia has succeeded and was well on the road to recovery, the latest argument is that Malaysia's accomplishments were clear but the IMF-assisted economies have done this as well as we have without having to resort to currency controls.

"If they can argue that others have achieved comparable results without having to adopt currency controls, then it can also be argued that we have achieved what others have achieved without having had to go through the misery of massive unemployment, the tragedy of children thrown out of schools, the decimation of the middle-class which we have spent a generation at building, bloodshed on the streets and political turmoil throughout the land.

"We have been able to achieve what others have achieved without having to go into massive debts, without saddling future generations with massive debt servicing burdens, without having to sell family silver and precious heirlooms, without having to auction off precious corporations to foreigners at fire-sale prices, without having to bend and to bow to anyone and without having to kiss anyone's feet."

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