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MALAYSIA-ECONOMY

MALAYSIAN RECOVERY APPROACH STILL BEING MISUNDERSTOOD

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MELBOURNE, July 12 (Bernama) -- The Malaysian economy has already started to recover earlier than expected with high marks given to the progress made so far, but many still question its approach in lifting itself out of the doldrums.

They are still not convinced what Malaysia has done is exactly the right thing. Some of these doubting Thomases were quoted in the ``Australian Financial Review'' in its analysis of the economic recovery in neighbouring Thailand.

The paper contrasted the approaches to capital controls and exchange rate policy taken by Malaysia and Thailand.

The newspaper says Thailand began its recovery from the crisis in a worst position than Malaysia. The Thais had a heavier burden of foreign debt, zero foreign exchange reserves, and a more severely damaged banking system.

Thailand was forced to go to the International Monetary Fund for emergency credit, and a condition of this credit was that it had to keep its system open.

But Malaysia, the AFR points out, was stronger and was not obliged to turn to the IMF. This gave it the freedom to experiment with a more managed, less open set of policies.

It quotes some analysts in the region as giving Malaysia high marks for some aspects of crisis management. For instance, Prime Minister Datuk Seri Dr Mahathir Mohamad gets credit for a much more aggressive programme of restructuring and recapitalising the banking system.

But the newspaper says many regional economists do not attribute any of Malaysia's success to the twin decisions to impose capital controls and to fix the exchange rate.

It quotes Bill Overholt, economist with Normura Securities in Hongkong as saying that Malaysia has gained ``no net advantage'' from its approach.

``Its economy and markets would have revived anyway -- just as Thailand's are doing,'' it reports Overholt as saying.

``And the cost is that foreigners are going to be relatively slow to come back into Malaysia. You get order by imposing controls, but from the investor's viewpoint it's disorder,'' he felt.

Overholt said every time a major firm bought Malaysian shares, they would ask themselves whether the rules would be changed to their disadvantage.

Meanwhile, in Kuala Lumpur, second finance minister Datuk Mustapa Mohamed said there has been an inflow of RM3.9 billion in foreign funds between Feb 15, 1999 and end June 1999.

But this, he said, formed only only 2.4 percent of the RM162 billion increase in market capitalisation of the Kuala Lumpur Stock Exchange during the period.

The KLSE's market capitalisation improved by 207 percent to RM557 billion as at July 7 this year from RM181.5 billion in the beginning of September 1998.

Mustapa said the recent run up in share prices on the local bourse was underpinned largely by the strong trade surpluses and domestic savings, which had been channeled into the equity market because of the relatively low interest rate environment.

"Domestic investors have played an important role in the recovery of

our strong market," he said, adding that the recovery of other regional bourses in contrast were aided by the large inflow of foreign funds. --
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