

10 MAY 1999

MAHANI SLAMS 'THE ECONOMIST' FOR ITS INCONSISTENCY

KUALA LUMPUR, May 10 (Bernama) -- A Malaysian academician today lashed out at "The Economist" for its inconsistency and that its recent series of negative articles on the management of the Malaysian economy had shown a perverse refusal to recognise a job well done, albeit with some imperfections.

University Malaya's associate professor of the Faculty of Economics and Administration, Dr Mahani Zainal Abidin, said the article dated May 1, 1999 entitled "Malaysia: The road less travelled," was full of contradictions and inconsistent reasoning.

The article had implied that Malaysia's capital controls and fiscal stimulus initiatives were irrelevant since the Malaysian economy was bound to recover anyway because of its strong fundamentals such as high savings rate, relatively well-regulated banks and robust exports.

"I found this conclusion amazing since earlier it had declared that the Malaysian economy was not emerging from recession but instead entering a depression, because among other things, our banks, awash with bad loans, were kept afloat by the government (Dr Mahathir's Noxious Remedies, Sept 26, 1998)," Dr Mahani said.

She said the "The Economist" missed the point when it claimed that capital controls had contributed very little to the recovery process.

This was because the controls have been pivotal: extreme measures to deal with an extreme situation. "In the relative calm they provided, domestic confidence has recovered and we have restructured our banking and corporate sectors," she said.

She added that Stanley Fisher, the first managing director of IMF has commended these initiatives and Malaysia was in a unique position and has skilfully applied capital controls.

The article had said that Malaysia's capital controls deserved little credit for its economic performance because they were applied so narrowly and imposed so belatedly that they have had little impact.

To this Dr Mahani said, "I think it had missed the point on the purpose of capital controls which it claims are irrelevant because they are narrowly focussed. They have succeeded for exactly that same reason".

"They prevented volatile short-term capital flows from destabilising our relatively small economy, while not interfering with other more valued capital movement," she added.

On the article's assertion that the shadow IMF (International Monetary Fund) policy followed by Malaysia during the first phase of the crisis halted the over expansion of credit, she said, what these measures actually did were to unnecessarily contract the Gross Domestic Product (GDP).

She said the standard IMF prescription, which has been handed out like snake oil to rattled economies in this region, was considered too harsh and damaging. Even the IMF has conceded this.

The affected economies now practised fiscal stimulus and low interest rates, policies adopted by Malaysia much earlier, she added.-- Bernama

SHO KTC