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Malaysia's selective currency controls and why they worked

WE were finished, they said. Kaput. But when disaster did not strike, the world changed its mind about Malaysia's selective currency controls, says Prime Minister Datuk Seri Dr Mahathir Mohamad in his speech delivered yesterday at the 'Symposium of the First Anniversary of Currency Control' held in Kuala Lumpur.

Please let me add my words of welcome to this international symposium on currency controls and Asian monetary cooperation. My task is to talk about the strong but selective currency controls which Malaysia imposed exactly one year and one day ago.

After such an incredibly momentous 366 days, I can make no better introduction than to remind you that what is now the past was once the future.

That future then was a most uncertain one. For all of Southeast Asia and most of East Asia it was a most threatening, devastating and gloomy future.

Many had been driven to desperation and despair. Confidence was in even shorter supply than capital. Many believed that we would all collapse.

We were told each and every day, many times a day - sometimes by the very same people who had so shortly before told us that we were dragons and tigers - that we had suddenly all become either lame ducks or dead ducks.

I can do no better than to start by turning your minds back to this time just a year ago.

After more than one year of devastation, much of East Asia was in ruins. There was little hope for the future. There was no light at the end of the tunnel. In fact the tunnel seemed to be without end.

Every day brought news worse than the day before. When something bad happened in Thailand or China, our stock markets fell; our currencies shook.

When something unfortunate occurred in Indonesia or Hong Kong, our stock markets took a beating; our currencies were pummeled.

When something untoward happened in South Korea or Japan, our stock markets quaked; our currencies were hammered.

When Malaysia contributed our own share of bad news, the stock markets of our regional neighbours fell; their currencies shook.

The explanations were simple. Seldom were more than two words necessary: "regional contagion", "herd instinct", "crony capitalism", "corporate governance", "vicious circle", "financial panic".

For some reason which I don't understand Malaysia was least liked by certain quarters. Besides the attacks against our economy, it was made obvious to us that the Government should either be overthrown or the Prime Minister at least should get lost.

But for Asia, Alan Greenspan the most powerful man in the world issued a "blunt warning" that Asia's economies were continuing to weaken.

"The evidence we have to date," Greenspan said on July 22 1998, "still exhibit no evidence of stabilisation". Indeed, he noted, "The most recent data still exhibit deterioration".

The man who warned about "irrational exuberance" when the Dow Industrial Average was at 6,600 also warned that a sharp US stock market drop was inevitable at some point. Not "possible", "Not likely". But "inevitable".

Back to Malaysia, one day after we unveiled our National Economic

Recovery Plan, which set out more than 200 reforms and transformation measures, on the very eve of the departure of the Malaysian road show intended to raise US\$2 billion (RM7.6 billion) in bonds - Moody's showed its immaculate timing and not so immaculate pre-disposition by downgrading Malaysia's sovereign debt rating to just above junk bond status.

The very next day, Standard and Poor's did the same.

It was no surprise that the Kuala Lumpur Stock Exchange plummeted to a nine-year low. The ringgit came under heavy pressure. The bond exercise was, of course, aborted.

Let me paint for you the background of news and events against which the decision to impose our strong if selective currency controls was made.

To simplify and shorten it, I will merely read to you some of the headlines of the international Press, starting from July 3 1998.

For obvious technical reasons, I cannot quote to you the much more colourful and punchy TV headlines.

On August 3: The Nikkei Weekly reported that "Looting, destruction stagger Indonesia".

The Financial Times headlined "Gloom over the Philippines" short-term prospects'.

The International Herald Tribune reported that "South Korean Exports Fell by 13.7 per cent in July - Concern Grows That Recession May Deepen". In the same issue, the IHT carried a feature which suggested that China would devalue:

- * if the Yen collapsed;
- * if China's growth rate were to falter and;
- * if there was pressure from Chinese exporters.

Many news reports and analyses from the world media followed on the collapsing Yen, on the faltering China growth rate and on China's loss of export competitiveness.

On August 3 also, The Asian Wall Street Journal reported: "Japan's Jobless Rate Rose to a Record 4.3 per cent in June". Business Week's story on Malaysia was headline: "Suddenly, Companies Are Falling Like Coconuts - A rising tide of bankruptcies threatens to engulf the Malaysian economy".

Whether we would die from brain concussion arising from falling coconuts or from mere drowning by the "rising tide of bankruptcies" was not made clear.

On August 3, the IHT also ran a story headline "What If the Worst Happens in Asia? Not So Bad". This article reported the finding of "respected economists" at Standard & Poor's that under a "worst-case scenario" in which Japan's economy shrinks by 10 per cent, in which China's economic growth rate falls from eight per cent to one per cent, and in which Indonesia lapses into default on its foreign debts, the United States would experience only a "mild recession".