

26 AUG 1999

MALAYSIA-KRUGMAN

MALAYSIA SHOWS THAT CAPITAL CONTROLS ARE FEASIBLE

By: Tham Choy Lin

SINGAPORE, Aug 26 (Bernama) -- International economics guru Paul Krugman said Prime Minister Datuk Seri Dr Mahathir Mohamad had showed that capital controls are "feasible" but it was time to phase them out.

Krugman, who is here to attend the Asia Business Forecast economic forum, said capital controls were not required at this point as Asia was not facing a market panic.

"I think they should be phasing them out as it is hard to think of a time when the basic market situation would be more favourable," Krugman said when asked on Malaysia's capital controls that were imposed last September at the height of the economic crisis to insulate the economy from volatile short-term capital flows.

Malaysia yesterday announced a 4.1 percent second quarter gross domestic product growth, confirming that it was comfortably out of the recession that had mired the country's economy over the past year.

On whether the capital controls had served their purpose in helping Malaysia's economic recovery, Krugman said the capital controls turned out to be "largely irrelevant" as the panic was subsiding from Asia when they were introduced.

"But what you can say is that the predictions of investment bankers that absolute terrible things, that grass is growing in the streets of Kuala Lumpur, have been falsified.

"So you can say that Dr Mahathir made his point that such a thing is feasible and need not have too severe economic consequences," he said.

Krugman, who will be meeting Dr Mahathir at another economic forum in Kuala Lumpur tomorrow, had mulled the use of capital controls at the same Asia Business Forecast here last year.

"It was a shock that while I was speculating idly about that, Dr Mahathir was about to do it," he said.

However, Krugman was of the view that capital controls had not succeeded in demonstrating that they were the key to recovery.

"We'll need another crisis to get another test of which of the recipes are exactly right," he said.

Asked if Malaysia had traded lower medium term growth for short term stability by using the capital controls, Krugman said: "I think that's not all that clear.

"In some respects, the capital controls were used as a temporary stabilising measure and not to make possible long term irresponsible policies."

He said from the viewpoint of foreign direct investors, the capital controls "might almost be a good thing" as it reduces vulnerability to panic.

"There is not a lot of evidence that this is going to hurt medium term growth. At this point, that is a statement of creditors rather than actual fact," he said. -- BERNAMA

TCL MR