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WEF-Viewpoints

COMING TO TERMS WITH MALAYSIA'S VIEWPOINTS

A commentary

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DAVOS (Switzerland), Jan 28 (Bernama) -- As world leaders, corporate chiefs and academicians converge here for the annual World Economic Forum (WEF), it is gratifying to see many of them coming to terms with what Malaysia has been emphasising on the global financial system.

Malaysia has been saying that there must be regulations to ensure the system would not be open to abuse by rogue speculators.

Some countries had been impoverished by the extreme volatility in currency movements and the latest seems to be Brazil whose economy has been severely affected by a steep devaluation of its currency, the Real.

Prime Minister Datuk Seri Dr Mahathir Mohamad, besides saying that currency manipulators have been causing havoc to the financial system, has also been critical of the International Monetary Fund's (IMF) prescription of high interest rates and tight monetary policies, which he told was a recipe for economic disaster.

It is interesting to note that George Soros, one of the biggest currency speculators in the world, has admitted in his new book, "The Crisis of Global Capitalisation", that there have been certain fundamental flaws in the global financial system.

"Unless we attend to them, the system is liable to disintegrate -- and we shall suffer the consequences," he said in his book which has been excerpted in the Feb 1 issue of Newsweek magazine.

In the book, Soros also said the role that financial markets play in the world ought to be radically reconsidered.

Soros' comments are reminiscent of what Dr Mahathir has been saying all along.

Another case in point is capital controls. While Soros has been critical of Malaysia's controls in his book, for some reason or the other, a paradoxical situation has emerged when he admitted that Asian countries which adopted currency controls like China and India had weathered the financial turbulence better compared to others which were open.

"Some form of capital controls may therefore be preferable to instability even if it would not constitute good policy in an ideal world. The challenge is to keep international financial markets stable enough to make capital controls unnecessary," said Soros.

What Soros had opined in his book is more or less reflective of what Dr Mahathir had been saying. The Prime Minister has repeatedly stressed that the country's selective capital controls are temporary and they would be removed once the global financial system is well-insulated.

Despite disquieting comments from certain quarters, Malaysia has not turned its back on the global financial system, neither has it closed its borders to trade and investment.

What it did was to introduce measures to prevent extreme volatility in the ringgit by rogue speculators.

In the meantime, Malaysia has been urging the international community to find solutions to the financial crisis while it is also prepared to provide inputs as to how the turbulence can be minimised or eliminated altogether.

In his book, Soros also said the IMF and other institutions have to recognise the case for some regulations on capital flows and there are subtle ways in which currency speculation can be discouraged that fall short of capital controls.

In this regard, he said banks can be required to report on currency positions they hold for their own or for their clients' accounts. If necessary, limits can be imposed on the size of such positions.

Saying that these techniques can be quite effective, Soros said the constraints in national central banks is that they can only exercise control over their own banks.

But Soros said once the principle that having controls are legitimate is established, there could be a lot more co-operation between national central banks.

He also said it should be possible to curb speculation without incurring all the harmful side effects of capital controls.

The admission of someone, who has made billions from currency speculation, in the efficacy of temporary controls and the need for reforms, is indeed comforting.

It must be highlighted that Malaysia is all for seeking solutions to ensure that financial markets are stable so that it can lift its selective capital controls imposed last September.

Meanwhile, Singapore's senior minister Lee Kuan Yew has echoed Malaysia's call to fix the global financial system.

Writing in the Feb 1 issue of Time Magazine, he said if the US, European Union and Japan could agree to a new financial architecture, it would reduce the wide fluctuations in the exchange rates of the three major currencies and that of developing countries.

Lee also said there is a need for an institution like IMF or World Bank to perform the function of lender of last resort in situations when the systemic risk of contagion is high so that crisis-struck economies would not go into deep recession when private foreign capital suddenly flows out.

With an injection of liquidity, domestic interest rates would not need to rise to unbelievable levels, shrinking economic activity and leading to corporate and banking distress.

It is perhaps timely that Dr Mahathir is here to speak on what needs to be done and what Malaysia has done admirably.

He will speak on how Malaysia had bounced back from the brink of economic stagnation and what lies ahead for the country.

It would be worth the while of the WEF attendees, including Soros, to listen to what Dr Mahathir has to say on the new rules of the game.

-- BERNAMA

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