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On track in our reforms

FINALLY, the United States has cast off its earlier philosophical mooring that Malaysia's capital control measures are retrogressive and will block much needed reforms. As acknowledged by US Treasury Secretary Robert Rubin, we have instituted real financial reforms despite the measures.

Some may argue it is premature to make a robust evaluation of the outcome of the ongoing reforms. But Malaysia is on the right track. The latest endorsement came from the Asian Development Bank which states that the measures allowed the country to "reassert some form of monetary sovereignty and pursue an independent monetary policy to stabilise the economy and pursue growth".

The consensus from several international agencies and investment banks is that our economic stabilisation policies are working well, the financial sector restructuring is ahead of schedule and the exchange controls have helped to rebuild reserves and output. A key element in the measures taken is the balanced interest rate policy. This averted the much dreaded credit crunch since viable businesses can ease liquidity problems through new borrowings. The recapitalisation of banks and transformation of problem assets into saleable assets by Danamodal and Danaharta have prevented a systemic collapse of the banking sector.

Other significant measures in strengthening the sector are the financial deposit insurance scheme, the tightening of lending regulations to connected parties in order to disallow lending to controlling shareholders and the enhancement of the Bank Negara's supervisory role. The verdict by international research house Credit Suisse First Boston is that the health of our banking system has been fully restored. The growing confidence in financial stocks in the local bourse reflects the sector's return to the path of recovery. Restructuring the corporate sector is no less important. Indeed, expectations are high that the Kuala Lumpur Stock Exchange's Composite Index will hit 700 points soon.

But an unfettered market remains the nightmare of our future. Why is it so difficult for the developed nations to initiate real global financial reforms? The answer may well lie in John Maynard Keynes' observation that "The difficulty lies, not in the new ideas, but in escaping from the old ones". If there is anything that is holding them back from instituting actual reforms, it is the Western powers' reluctance to forego their interests in forging a more equitable world. The Financial Stability Forum is merely an elegant facade to cloak the poverty of thought and action within the Group of Seven industrialised nations.

Rubin's statement that industrial countries must take steps to address excesses in capital flows and leverage suggests that developed countries have no say in such efforts. Prime Minister Datuk Seri Dr Mahathir Mohamad's assertion that developing countries must participate in the global reform effort should be rigorously pursued. Otherwise these countries will end up being losers again. In supporting "mechanisms which induce a much stronger focus on risk management during good times because reducing the excesses of the booms will reduce the likelihood and severity of the busts", he is not striking at the root of the problem. Such mechanisms merely fix the leaks in the international monetary system. At best, it is a good plumbing job. But it will not help to build a new order.

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