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SELECTIVE CONTROL

PANEL: MALAYSIA'S CAPITAL CONTROLS ARE A SUCCESS

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KUALA LUMPUR, Sept 2 (Bernama) -- A panel of economic and financial experts while commending the Malaysian government for using selective capital controls to tackle its economic problems have also called for a financial safety net to enable Asia to avoid a similar crisis in the future.

The question of the financial safety net was brought up at the half-day International Symposium on Currency Controls and Asian Monetary Co-operation here today.

The symposium was jointly organised by Institute of Strategic and International Studies (ISIS) Malaysia, Mainichi Newspapers of Japan and the Japan External Trade Organisation (JETRO).

Dr Sura Sanittanony, special advisor to Thailand's Minister of Commerce, sees the need to have stronger co-operation among East Asian countries through a regional monetary co-operation as even the United States is said to be unsure whether the International Monetary Fund's resources are sufficient to deal with such a crisis in the future.

He said the reason why the idea of an Asian Monetary Fund proposed earlier had been opposed because the present system had benefited stronger countries.

Referring to capital controls, Dr Eisuke Sakakibara, an advisor to Japan's Minister of Finance, said they should be regarded as options which can be employed by the relevant authorities.

Malaysia's selective controls have been useful in tackling the financial crisis as the country has a strong trade surplus and a competent central bank regulated the transactions, he added.

He strongly felt that capital controls be considered as a policy option for emerging countries in dumping the "boom and bust" uncertainty and volatility.

Zhao Jianping, China's deputy director-general, state administration of foreign exchange, said history would judge the courageous efforts of the Malaysian government.

Dr Amar Bhattacharya, the World Bank's senior adviser, described the recent turmoil as a crisis of the global financial system.

As such, the policy response need not be of the old variety but tailored to the circumstances of a particular country.

He said the experience of many countries had shown that the role of capital controls were short-lived except if they are in the context of a consistent macro-package and reform.

A fixed rate with flexibility is a regime which emerging markets can opt for, he said.

When approached by reporters later, Dr Bhattacharya said the important thing about Malaysia now is that recovery has taken place and the country managed to avoid a large degree of financing.

"The capital controls had made an impact. Investors could have withdrawn but they chose not to," he said.

Prof. Thomas DeGregori, an economist at the University of Houston, said the Malaysia's success "speaks for itself."

He said Prime Minister Datuk Seri Dr Mahathir Mohamad has made his case, and the short-term controls have worked.

Dr. Heiner Flassbeck, former vice-Finance Minister of Germany, meanwhile, said the world's financial system needed a paradigm shift.

"What is most important is being able to create a system to keep exchange rates constant and that would solve the world's worst problem."

Even in the Europe, he said there are only few countries that floated their currencies after the Bretton-Woods pact while most still favoured fixed exchange rates.

Dr Flassbeck said the recent economic turmoil showed that the present monetary system, which still requires a government to stabilise the domestic value of its currency while at the same time leaving the currency's value outside the country at the mercy of others, including speculators, is not working. -- BERNAMA

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