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SINGAPORE-EDITORIAL

REFORM OR OTHERS MAY FOLLOW MALAYSIA'S LEAD IN NEXT CRISIS

SINGAPORE, Sept 9 (Bernama) -- Singapore's Straits Times newspaper said the international financial system should be reformed or other countries may be tempted to follow Malaysia's lead in using capital controls when the next crisis strikes.

While acknowledging Malaysia's success with the controls, the newspaper said in its editorial today, titled "A qualified 'yes,but'", capital controls are not a viable long-term policy option.

Malaysian Prime Minister Datuk Seri Dr Mahathir Mohamad announced selective capital controls in September last year to protect the country from speculators and the latest economic figures confirmed the country was out of the recession.

Said the state-linked newspaper: "The international community should give him credit for having pulled off his coup, yes, but it should also institute reforms to remove the need for similar future coups. One Dr Mahathir is just a 'heretic'; two, three or more could mean trouble."

It said while Malaysia had used the controls to restructure its banks, it had also took advantage of them to avoid real reforms on other fronts. "Well-connected companies continue to be favoured over others, corporate governance is still not altogether transparent and questionable policies are still protected."

Real reforms in Malaysia or elsewhere are unlikely unless governments and corporations submit themselves to the discipline of the market, it added.

The newspaper said long after the dust had settled on Dr Mahathir's controversial stewardship of his country through the financial crisis, the fact that he had resisted the International Monetary Fund-Washington consensus on capital account convertibility and "lived to tell the tale will remain his legacy".

"When the next crisis strikes, other countries may be tempted to follow his lead. Dr Mahathir's seeming success adds to the argument that the international financial system needs to be reformed," it said.

Pointing out that the first anniversary of the controls passed with barely a ripple, contrary to predictions of massive capital flight, the newspaper said many mainstream economists had missed the mark in arguing that Malaysia's recovery cannot be traced to capital controls.

"The real news here, the fact which should worry the International Monetary Fund-Washington consensus on capital account convertibility is this: Capital controls did not (repeat: did not) do any real harm," it added.

It said the experts who said the controls were irrelevant were the very same people who predicted nothing less than "hell fire and damnation as Malaysia's just reward a year ago".

"But that did not materialise. Malaysia was a pariah for a while, but not for long. A black market did not develop, foreign direct investors did not flee the country, and even the foreign portfolio investors are now back in force on the stock exchange," it said. -- BERNAMA

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