

30 JAN 1999

WEF-ASIA

SACHS: THE WORST IS OVER FOR ASIA

By: Yong Soo Heong

DAVOS, Jan 30 (Bernama) -- Harvard University professor Jeffrey Sachs says the worst is over for Asia and it is on the road to recovery.

Sachs, who is here to attend the annual meeting of the World Economic Forum (WEF), said Asia may not be the best place to invest now when compared to three or four years ago but it was still competitive and there were still attractive areas for investment.

He felt that Thailand and South Korea appeared to be making good progress by reducing their short term debt and restructuring their banks.

As for Indonesia, he said it could rebound if there was a smooth political transition in the coming general elections and the prevalence of social harmony.

Referring to Malaysia, he said it ought to develop its scientific and engineering expertise to be part of the global supply chain of goods and services.

The development of knowledge-based sectors would enable the country to move forward, he said.

In this regard, the Malaysian government has been strongly pushing the development of the Multimedia Super Corridor (MSC), a leading edge programme which uses knowledge-based workers. Prime Minister Datuk Seri Dr Mahathir Mohamad yesterday said that the government would not cut funding to the MSC despite being impacted by the currency crisis.

Referring to the Asian currency crisis which erupted in the second half of 1997, Sachs said the International Monetary Fund (IMF) and the US government had caused panic when they described Asia as being ruined then.

In addition, the IMF's action in calling for interest rates to be raised and for 158 financial institutions in Thailand, South Korea and Indonesia to be closed also precipitated the crisis.

On the other end of the scale, he asked the US Federal Reserve Bank in allowing interest rates to be lowered when it felt that the US was going to face a credit crunch in the face of the problems looming at the Long Term Credit Management (LTCM) hedge fund.

When asked on his thoughts on how future currency crisis could be averted, Sachs said he had three solutions.

The first two is to have flexible exchange rates and placing curbs on borrowing short term money from abroad.

"The third is not to call the IMF when you have a problem," he said.

Sachs also said that there was a need for banks to consider rolling over the debts so that debtor countries could be rehabilitated and their loans be recovered over the long term rather than calling for a default and pulling out abruptly.

Referring to exchange controls, he said measures which limit the entry of short term funds were better than those which attempt to keep funds from going out.

He said the Chilean example of imposing a levy which made it difficult or expensive for local entities to borrow from foreign banks or for foreign banks to lend to domestic institutions made good sense to avoid short debt problems.

On Malaysia's example which kept foreign funds invested in local equities for a period of one year, he felt that it was difficult to keep money from flowing out because those involved would attempt to circumvent the regulation.

Sachs also felt that Malaysia need not impose its selective exchange controls in the last quarter of last year because interest rates were already coming down and the situation in East Asia was stabilising.

He was also of the opinion that limits on fund outflows also brought about a bad reputation.

However, Dr Mahathir, in defending Malaysia's initiative in imposing exchange controls, said the measures had effectively stopped manipulation in in the local stock market. -- BERNAMA

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