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`We have to adopt the good points'

Leong King Wai

NOT having the privilege of attending the Malaysian Business Forecast Seminar held on 27th August 1999, my reaction to the dialogue comes from reading various newspaper reports.

Therefore my comments and observations are not directed only at Paul Krugman.

I noted Krugman's remark that the participants all have the same "Aye" mindset.

In fact, most Malaysians feel that the issues involving foreign exchange rate controls, at this point of time, are necessary evils for economic and national survival.

Therefore, they deserve patriotic citizen-support, no different from national wars where individuals may or may not agree with the issues in dispute.

We know for sure that if Malaysians do not support Government policies, these policies are bound to fail.

A point to note here is that even former Deputy Prime Minister Datuk Seri Anwar Ibrahim's supporters are not critical of the selective currency control policies!

Some years ago, during a discussion with an old friend about the exchange losses suffered by Bank Negara Malaysia, I advocated that the billions lost was not in vain if such a loss was incurred while defending the Malaysian ringgit.

This, in order to insulate the economy from undesired external influences and to achieve price stability caused by hot money which creates a volatile domestic interest rate.

At that time, the main policy target of the Government and Bank Negara was to keep the inflation rate below four per cent per annum to contain wage spiral.

I believe the loss by Bank Negara was a worthy price to pay for the medium-term stable economic growth which we subsequently enjoyed until the crises.

Of course, it is a different story if the loss was due to currency speculation.

I agree with Krugman that the main cause of the catastrophe was due to the loss of confidence of Malaysian nationals pulling their funds out from the country.

However, no one can deny that the trigger was pulled by international fund managers (speculators) who were the main culprits responsible for creating the crises.

This should be contrasted with the current solidarity demonstrated by Malaysians in heeding the call of our Prime Minister and to back him 100 per cent to ensure rapid economic recovery.

I respect the view of Krugman that in the long or medium term, foreign exchange controls will distort the allocation of resources.

And, if not properly managed, such controls will lead to further corruption.

At the same time, one has to praise and admire the fortitude demonstrated by Prime Minister Datuk Seri Dr Mahathir Mohamad in adopting the bold strategies that he did, to prevent Malaysian corporations and in particular, the domestic banks from the hammers of international auctioneers.

Yes, all Asian countries affected by the crises are recovering, but at what price?

The price paid by the multinationals for the Indonesian, Thai and Korean banks and corporations should cause international regulators like the IMF and World Bank many sleepless nights, and the developed countries to see the daylight robberies committed in the name of free trade and globalisation.

When should the foreign exchange control be lifted?

In going through the various newspaper reports, I could not find any reference made to interest rate policies.

When the interest rate is high enough, foreign capital will pour in and stay.

At this point in time, high interest rates will strangle many debt-ridden companies and are not appropriate at the early phase of economic recovery.

We need a slightly longer time to allow these domestic corporations to recover from the crises.

In order to maintain low domestic interest rates, we require an independent domestic interest rate policy which will be difficult, if not impossible, to pursue without the foreign exchange control policies.

The suggestion by Professor Krugman to use the Latin American version to control "hot money" where a certain percentage of the inflow is frozen will drive interest rates higher. His other suggestion was to impose a tax.

Both suggestions are not suitable alternatives for Malaysia.

It is a tough call for Malaysia. The respite provided by foreign exchange controls must be efficiently and effectively used to rebuild our economy.

We are bound by our words that these emergency selective controls will be dismantled soonest possible.

Excessive speculations, whether from within or without are totally unacceptable.

Artificially high prices whether in properties or the share market are illusory and the bubble will burst at the expense of unsuspecting people.

Krugman has many good points and it is up us to adopt the good ones and to put aside the others for future reference.