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UNCTAD-CAMPAIGN

ALLOW CAPITAL CONTROLS, SAYS MALAYSIAN EXECUTIVE

By: Muin Abdul Majid

BANGKOK, Feb 15 (Bernama) -- There should not be a campaign against the Malaysian experiment with capital controls as it has managed to stop the adverse effects of destructive capital flows on the country's economy.

This was stated by Third World Network (TWN) executive director Martin Khor at a special session discussing developments in the proposed new financial architecture held today in conjunction with the on-going 10th United Nations Conference on Trade and Development (Unctad X), here.

He said instead of discouraging countries from having capital controls, the international community and financial system should allow them to have domestic policies that included such controls.

"The kind of controls that Malaysia instituted for example, did not have the negative effects...they had predicted that we would be a totally bankrupt case by now. I think the Malaysian experiment has attracted the interest of many other developing countries.

"There should not be a campaign against the Malaysian experiment and that countries should really learn from it, including the bad points if there are any," Khor said.

The Malaysian government introduced selective capital controls in Sept 1998 to enable it to stem the effects of excessive manipulations of currency and stock market speculation which wiped out decades of development efforts.

The move, criticised by many quarters in the international financial circle, has been staunchly defended by Malaysian Prime Minister Datuk Seri Dr Mahathir Mohamad. He has also been the most vocal in advocating for a revision of the international financial system to avoid the recurrence of a similar crisis.

"It was because we did not have such controls that many of the Asian countries fell into the crisis," Khor said, alluding to the region-wide crisis which started with the devaluation of the Thai baht in 1997.

The session also saw the participation of Unctad chief economist, Yilmaz Akyuz and the executive-secretary of the Economic Commission for Latin America and Caribbean, Jose Antonio Ocampo.

He said the Malaysian government should take the lead in organising discussions with the Unctad secretariat on how the UN body could expand its work with the view of reforming the international financial system.

"That would be our best chance of giving substance to what kind of new architecture that we want, because at the political level Malaysia has been calling for it.

"At the substance level, the government should come up with concrete ideas...and Unctad could help with that," Khor said, adding that this could be followed up and pursued at the Asean and Asia levels.

He also said major countries of the International Monetary Fund (IMF) should not proceed with their effort to give the IMF the mandate to include capital account convertibility as part of its area of jurisdiction.

"This would mean the IMF can discipline developing countries to open up their capital markets and their currencies which could lead to further speculation and further financial crisis," he said.

In addition, he said developed countries should not proceed with their plans to have a multilateral agreement on investment (MAI) as it would require countries signing it to open up themselves to the free flow of international funds into and out of the country and this included short

term capital, speculative capital as well as direct investment.

"Whilst we may welcome direct investment, we don't welcome short term flows," he said.

Khor said major countries in the World Trade Organisation (WTO) should put a stop to their campaign to initiate a new investment agreement within the organisation for the same reasons.

"That agreement would again force countries to liberalise the flows of finance and capitals from abroad. While a country may indeed want and require foreign direct investment (FDI), it should be up to each country to decide how FDI should be welcomed and how it should be treated," he said.

He said the WTO should review the financial services agreement that was signed about two years ago since it was concluded before the full implications of the financial crisis was known.

On the other hand, he said measures to enable victims of financial crisis to manage the situation should be advocated and this could include the establishment of a bankruptcy court as was done in the United States.

He said such a move would enable the affected country to enjoy a standstill in debt repayment while the bankruptcy court was working with the creditors, thus giving a chance for that country to recover.

"The idea of the debt work-out is to have a fair sharing of the burden between the creditor and the borrower," he added.

Khor said it was the obligation of the US, Europe or Japan to have better regulations to prevent their big financial institutions from speculating abroad or taking money into other countries and taking it back without responsibility.

"For all these things to be achieved, there have to be reforms to the international financial system to make it more democratic, because at the moment, the rich countries, the institutions and financial players that control it have a vested interest to preserve the status quo.

"But the status quo is destroying prospects of countries everywhere in the world, eventually the rich countries themselves too," he said. --

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