

20 MAY 2000

MALAYSIA-BHAGWATI

MALAYSIA RECOVERS BY SIDE-STEPPING IMF 'KILLER HANDSHAKE'

SINGAPORE, May 20 (Bernama) -- Renowned economics professor Jagdish Bhagwati said Malaysia's economy is recovering nicely because it had avoided the "killer handshake" of the International Monetary Fund (IMF) during the Asian crisis.

"Most people would agree now that the first set of International Monetary Fund policies was excessively deflationary for Asia. Mahathir's policies worked well because they made him escape the handshake that would have killed him," he said in a lecture here yesterday.

The Straits Times reported Bhagwati as saying that Malaysia was recovering not because of its capital controls but because by going its own way, it avoided the IMF "killer handshake".

Malaysia and its Prime Minister Datuk Seri Dr Mahathir Mohamad were vilified internationally when it chose to introduce selective capital controls in September 1998 to curb rapid capital flows and speculation on its currency.

"It has now vindicated itself," said Bhagwati, professor of economics and political science at Columbia University, whose students had included economist Paul Krugman and United States' Treasury Secretary Lawrence Summers.

Drawing attention to the flak Malaysia received because of its capital controls, Bhagwati said countries which had chosen the liberalisation path leave at their peril.

"You join the mafia, that's one thing - it's a very important decision. But if you want to leave, that's even worse. You can't go up to Mr Gambino and say, 'I want to leave.' You leave in a coffin," said Bhagwati.

That was why he advised India not to rush and abandon its capital controls because a U-turn later would be difficult.

Bhagwati also dismissed Krugman's argument that the Asian economic miracle was a mirage conjured up by huge capital investments.

He said that the growth enjoyed by the Asian tigers was "an off-the-chart miracle" and the countries did well because they were export-oriented.

"Once growth comes through exports, there is no pressure on balance of payments, which means you can import a lot of technology which then creates productivity and raises literacy," he said.

Bhagwati was optimistic that the Asian miracle would get back on course.

"Maybe we won't go back to the 10 percent or double digit growth but seven or eight or nine percent is possible. I think the optimism is justified," he said. -- BERNAMA

TCL FR