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Malaysia - vindicated, stable and recovering

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MALAYSIA'S success with capital controls is an obvious source of frustration for the International Monetary Fund (IMF). While the body acknowledges in some of its literature that the controls have worked, some of its senior staff still appear unprepared to say outright that the measures have worked even better than they had expected.

IMF's First Deputy Managing Director Stanley Fisher appeared uncomfortable when asked about it in Davos, Switzerland. "I don't think (they have worked as well) ... what measure of success do you use? Malaysia's controls went into place after the crisis," he said, adding that "Malaysia has not done better than Thailand".

When reminded that Malaysia has not done any worse than its neighbours, he chose to ignore the statement, saying instead: "... by the way, Malaysia had the best initial conditions of any country in South-East Asia (before the crisis)."

Many people attending the annual World Economic Forum (WEF) in the ski town of Davos in the Swiss Alps this year commented that Prime Minister Datuk Seri Dr Mahathir Mohamad "must feel vindicated". At last year's meet, however, there were many sceptics even as Dr Mahathir told participants that without the selective capital controls, the country would have gone bankrupt.

The prophets of doom came out in full force when Malaysia announced the controls in September 1998. They "predicted" that there would be a rush to the door when the one-year moratorium ended in September 1999. All predictions proved grossly wrong.

Forecasts for economic growth this year are robust. For 1999, the Gross Domestic Product (GDP) growth is expected, by some analysts, to be about 5 per cent and for the year 2000, 5.5 per cent.

Malaysia has not cut itself off from the rest of the world; its trade figures are a testimony to this. The trade surplus of RM72.3 billion recorded last year is almost 24 per cent higher than the 1998 figure of RM58.4 billion. The trade surplus of RM8.6 billion for December 1999 represented the 26th consecutive month of trade surplus.

Domestic demand has increased but prices have remained stable even as the country continues to experience full employment. On top of this, it continues to provide employment to some one million foreign workers.

According to AT Kearney's FDI Confidence Index issued in January 2000, Malaysia "has advanced a remarkable 29 positions - and 14 positions in the past six months - in overall investment destination preference".

(This index is constructed using primary data from a proprietary survey covering senior executives of the world's 1,000 largest corporations. These corporations account for almost 70 per cent of total global FDI outflows, represent 35 countries and 24 different industries).

Foreign reserves at the end of last year had increased to US\$31 billion, sufficient to cover 6.1 months of retained imports. Foreign reserves have risen from a low of US\$20.2 billion in July 1998, sufficient for four months of retained imports.

The Kuala Lumpur Composite Index, which had fallen to a 11-year low of 262.70 points on September 1 1998, closed at 957.66 on February 3 2000. Market capitalisation also saw a dramatic rise, from a low of RM181.5 billion to RM637.54 billion last Thursday.

Rating agencies have revised upwards their ratings for the country while

foreign fund managers now view the Malaysian market very positively, with many saying it is "undervalued". And with the imminent reinstatement of the KLCI into the MSCI, foreign funds are beginning to make a bee-line for Malaysian counters. Some analysts even expect the KLCI to reach 1,200 before the end of the year.

Dr Mahathir had told the WEF in January 1999 that "all indicators show an economy in recovery". He had made the statement just four months into the "selective controls". Now the results speak for themselves.

The performance last year proves that the country has managed its economy well and did not waste its "window of opportunity". Professor Walden Bello, Co-Director of Focus on the Global South, told a luncheon crowd at the recent Davos meet that capital controls have played a "positive stabilising role" in Malaysia.

Malaysia took the bull by the horns to deal with the problems at hand. It avoided the social disruptions and hardships that other crisis-hit countries and IMF-aided countries had to endure. Even the IMF's "poster child for recovery" - South Korea - had to deal with demonstrations and social upheaval.

Malaysia's controls were not straight textbook prescriptions but adapted to address the local situation and applied in a pragmatic and flexible manner.

An IMF study, titled "Country Experience with the Use and Liberalisation of Capital Controls", acknowledges that in Malaysia "the relatively favourable economic fundamentals ... at the outset, the authorities' efforts to accelerate the strengthening of the financial sector, also seem to have played an important role in improving the acceptability of the measures, both domestically and internationally".

IMF's Fisher, its outgoing Managing Director Michel Camdessus and other senior officials may not like to admit it but businessmen and chief executives worldwide are beginning to recognise the effectiveness of selective controls and the sustainability of Malaysia's economic recovery.

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