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Soros takes a leaf from Dr Mahathir's economic book

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SUPPORT for Malaysia's selective capital controls and acknowledgment of their usefulness is beginning to surface from the most unlikely sources, sectors and individuals who initially led the battle cry against the policies.

The latest is from one of the severest and most vocal critics of Prime Minister Datuk Seri Dr Mahathir Mohamad, namely currency speculator George Soros.

In an interview with BBC in London recently, the financial speculator said: "... He (Dr Mahathir) did quite well by imposing temporary controls during the crisis".

It is the same Soros who, at the height of the Asian financial crisis, had described the Prime Minister's proposal as "a recipe for disaster" and labelled Dr Mahathir as "a menance in his own country".

In 1997 when the Prime Minister told his audience in Hong Kong of the need to regulate the markets, Soros had responded that the suggestion was "so inappropriate that it does not deserve serious consideration".

Someone who brought the Bank of England to its feet in 1992 with his speculative activities is of late scathing in his criticism of free markets and warns of the "dangers of unregulated capitalism in the world markets" and of unregulated currency markets which are "not always rational".

The speculator recently lost considerable sums of money and with his flagship Quantum Fund brought to its knees by the "free and unregulated market" is now in favour of regulating the markets. "The new market fundamentalism is more dangerous to the world than communism," Soros now claims.

When Dr Mahathir warned of the dangers of free markets... he was told that he did not "understand economics" and that what he knew about economics "could be written on a stamp".

Now the very same policies that were criticised and Dr Mahathir who was labelled a "heretic" are said to be right all along. In fact, the Times of India suggests "Maybe it is time to look at other economic ideas of Dr Mahathir."

The selective capital controls and the peg of the ringgit to the US dollar were aimed at insulating the domestic economy from the external instability, vagaries and speculative forces.

While Malaysia has no say or influence over the external hostile environment, it can insulate the domestic economy and stabilise it for the benefit of its citizens, business community and entrepreneurs - both local and foreign.

The controls also "stopped the country almost immediately from sliding into recession, which would be socially unstable and economically more difficult to recover from" - something that some of Malaysia's neighbours who turned to the International Monetary Fund (IMF) for help are now realising.

Currency markets are not always rational and inherently unstable. By Soros' own admission "markets cannot be left to correct their own mistakes as they (the markets) are likely to over-react and to behave in an indiscriminate manner".

The unregulated market gives rise to moral hazard in addition to causing untold misery, destroying economies and the livelihood of the poor in developing countries.

Even so Malaysia was criticised for the unorthodox policies designed to safeguard its citizens and economy and the Government accused of turning inwards and moving against the growing tide of free trade and globalisation.

But Soros, the financial speculator, now argues that markets are inherently unstable and cannot be expected to meet social needs, and stresses the need for government intervention - something that Malaysia has advocated, stressed and judiciously implemented at the height of the crisis.

It is now acknowledged that "... unless the world gave power to authorities to deal with global instabilities, it was understandable that countries would want to insulate themselves from a sometimes irrational global currency market".

Soros now stresses: "You can't blame countries for protecting themselves." The Malaysian Government was doing just that with its "unorthodox policies and homegrown remedies".

Even US Federal Reserve chairman Alan Greenspan's focus and priority is the domestic US economy. Why should anyone expect developing countries like Malaysia, their governments and elected leaders to act differently other than in the interest of their domestic economies and citizens?

After almost two years Malaysia's most vocal critics, such as Soros, are now coming round to admit that the policies the country adopted and implemented were right all along.

Mr Joseph E. Stiglitz, former senior vice president of the World Bank, has described the selective capital controls as "an anti-speculative, hot money move" and not "an anti-foreign capital move".

Certainly, Dr Mahathir who took the flak from the international community for being "a heretic" and was told that he did not understand economics and what he knew about economics could be written on a stamp must feel vindicated.

Instead of being "a recipe for disaster", the policies helped "purchase insurance" for the country against turmoil and provided a stable environment for action.

With results of the policies clearly evident, The Times of India says the world should take a leaf from Dr Mahathir's book of economic policies. Soros is doing just that!