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Wither not RM peg

THE fund managers who told Malaysia that it should revise the ringgit peg upwards are not only ignorant, they lack the experience to form an original opinion. But they are in good company. Some economists and experts working with international agencies and institutions have no idea of what goes on around them. Even the International Monetary Fund (IMF), which has committed some of the biggest blunders in crucial decisions affecting economies. The Asian financial crisis exposed many amateurs who behaved like professionals.

The amazing thing is how easily these so-called experts forget their own mistakes and forgive themselves for making them. The case when Fitch IBCA, the German-based rating agency, apologised for its errors in downgrading South Korea's ratings remains an exception. From the IMF to the fund managers and the rating agencies, none admitted that they were not very accurate with their assessments on the Asian crisis. The former managing director of IMF, Mr Michel Camdessus, claimed credit for creating a situation that enabled the process of removing Suharto, who was the Indonesian President at the height of the regional crisis. The IMF condemned Malaysia's selective capital controls when they were introduced in September 1998 only to change their minds recently when it was clear that the measures were showing desirable results. The best economists could not even agree if it was better to increase or reduce interest rates but they would rather differ in their views rather than allow developing countries to have a say in helping themselves.

The renewed call for the fixed ringgit exchange rate to be revised is an example of how finicky economists can be. Prime Minister Datuk Seri Dr Mahathir Mohamad and other Malaysian Government and business leaders have explained numerous times how the ringgit peg could work to counter the effects of the financial crisis. Obviously, their counterparts in the US and Europe never listened. According to Mr Michael Mussa, an IMF director, countries that peg their currencies to the US dollar may create some problems seen at the onset of the region's economic crisis. The problem is that countries may start with a peg that is probably too low, making them an attractive place for capital to flow in to take advantage of investment in industries that can produce more competitively than anywhere else. As capital flows in and the countries gain reserves, they may try to sterilise the effect. But this may not work. As a result, increase in domestic price inflation would be the common outcome and the economies may end up with a potentially overvalued currency, and finding it difficult to extract themselves out of the situation.

Mussa seems to have conveniently ignored the fact that the ringgit peg has achieved its desired results as domestic businesses quickly gained control of their foreign exchange exposures, enabling them to attend to their other financial concerns which surfaced as a result of the crisis. Stabilisation of the ringgit also enabled Malaysia to turn around its economy fast. The Government has certainly no reason to be in a hurry to lift the controls or revise the peg. Do the fund managers have any idea what the negative implications are if the peg is lifted or revised upwards now? As Malaysian Institute of Economic Research executive director Dr Mohamed Ariff said, the Government can wait for economic recovery to get locked into a position where it cannot slide back. Maybe then the Government could revalue or de-peg the ringgit with minimal impact.

Unfortunately, some Malaysians still listen to those outside experts despite having seen and enjoyed the benefits of the ringgit peg. There are those among us also who would not blink an eye in believing whatever international rating agencies and economists tell them about what's good and what's bad for the Malaysian economy and stock market. These are locals who are worse than ignorant, they are the people whose minds are still colonised.

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