

Govt's fiscal measures helped sustain the economy

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Malaysia did not need the IMF package because its foreign debt was relatively low and largely held by the private sector

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MALAYSIA'S decision to implement selective capital controls and fixed exchange rate regime in September 1998 has produced positive economic growth for the country despite criticism hurled against the unpopular policies.

Initial international response to Malaysia's bold move was negative and the country was accused of adopting a policy of economic isolationism and was labelled a pariah and an heretic.

The country's *raison d'être* was simple in that it was necessary to insulate the domestic economy from the ravages of the regional financial crisis and to stem the speculative attack on the ringgit.

As a result the country's economy was stabilised and attacks on the currency by speculators were put to an end.

Nearly four years have passed since the financial turmoil termed as the Asian economic crisis ravaged and decimated the economy of several countries in the region notably Thailand, Indonesia

and South Korea.

What started as a currency devaluation in Thailand in 1997 spread like a bubonic plague and sparked a series of events ending in economic upheaval in South Korea, Indonesia and elsewhere before extending its reach to as far afield as Brazil and Russia.

While Malaysia decided against taking the International Monetary Fund's (IMF) bitter pill, other neighbouring countries had to turn to the international agency for financial aid.

Countries aided by IMF financial package were subjected to various strict conditions which in many cases caused sufferings to the people both socially and economically.

Thailand borrowed US\$14.3 billion (US\$1 = RM3.80) from a US\$17.2 billion IMF led financial rescue in 1997.

The country exited the bailout programme last June and repayments of loan are to run until 2005.

As part of the economic reform outlined by IMF, Thailand was forced to raise its value added tax from 7 to 10 per cent in late 1997 but the measure was later reversed by the Government to previous level to boost consumption.

South Korea meanwhile received a US\$58 billion financial package from IMF but only drew US\$29.7 billion while IMF cobbled together a

US\$46 billion bailout programme for Indonesia.

Prime Minister Datuk Seri Dr Mahathir had in the past repeatedly defended Malaysia's decision saying that the country's economy was much better compared with countries which resorted to IMF.

He reasoned that the fixed exchange rate was not doing any harm and does not have any negative implications on the economy.

According to Professor Dr G. Sivalingam, head of department of finance and banking at the Universiti Malaya, a comparison between countries like Malaysia which refused IMF bailout and those that received IMF assistance showed that in both experiments crisis affected countries recovered regardless of the policies pursued.

He said policies adopted by affected countries depend on the choices that societies make.

Malaysia opted for capital controls and fixed exchange rate regime and rejected the IMF bailout to keep intact the social engineering policies adopted since the 1970s.

In the case of IMF patients there was no political will to try unorthodox policies and they were not politically and socially cohesive and therefore vulnerable to external intervention.

This resulted in social

unrest, mass unemployment and rapid political change. Sivalingam told *Business Times*.

He added both sets of policies have worked not to hinder economic growth and did not provide a disincentive to the multinational corporations to produce and export and import from one another within the region.

So it is a moot point to ask which set of policies worked better because the engine of growth is the global economy and the East Asian countries did not follow policies that would disrupt the deeper integration of their economies with the global economy, Sivalingam explained.

Sivalingam said Malaysia did not need the IMF package because its foreign debt was relatively low and largely held by the private sector.

In addition the IMF itself was not under pressure from foreign multinational banks to insist that Malaysia adopt the IMF bailout, he added.

There was no deep social divide and sustained social unrest and mass unemployment in Malaysia.

The banks were not insolvent and the non-performing loans were low by comparison with the other three countries, he said.

However some economists are of the opinion that the recovery in Malaysia was due

to its adoption of IMF policies before September 1998 and that these policies produced a lagged effect in early 1999.

Malaysia had adopted pro-IMF policies between the third quarter of 1997 and the second quarter of 1998.

However these IMF type policies failed to work because large capital outflows coupled with high interest rates and the pessimistic economic outlook caused consumption and investment demand to fall.

Sivalingam argued that at the time of the imposition of capital controls there were heavy speculations on the ringgit in offshore markets due to the currency's high interest rate and speculators were confident that the free fall of the ringgit would more than compensate them.

Malaysia would have recovered after the external environment turned around with a sharply depreciated ringgit.

The capital controls and the fixed exchange rate regime helped to stabilise the ringgit at RM3.80 to the US dollar which otherwise may have been RM5 or RM6 to the US dollar, he explained.

The former World Bank adviser also said the business friendly economic policies pursued by the Government have resulted in the recovery of the economy with a devalued ringgit.