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Malaysia was right, says IMF (HL)

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PUTRAJAYA, Wed. - Five years after the introduction of the controversial capital controls following the regional financial crisis, the International Monetary Fund (IMF) acknowledged that Malaysia was right to take destiny into its own hands.

"With hindsight, we have to recognise the good performance of the economy. Therefore, the decisions had not been wrong.

"Dr Mahathir was right as a leader in his responsibility to take action to insulate the economy," IMF managing director Horst Kohler said.

The implementation of capital controls on Sept 1, 1998, after more than a year of uncertainties as economies in the region fell victim to currency manipulators, was criticised by many within and outside the country, including the IMF, for adopting an unconventional approach to crisis management.

Malaysia decided not to accept IMF assistance and prescription, unlike South Korea, Thailand and Indonesia, and instead isolated the economy by curbing capital flows and pegging the ringgit at 3.80 to the US dollar.

Among others, the IMF, which was set up in 1944, aims to prevent crisis in member economies by urging them to adopt sound economic policies, and it also extends loans to troubled economies.

Five years on, only the peg remains, and Kohler, while not suggesting that Malaysia unpeg the ringgit at any time soon, said the country should, nevertheless, be looking at ways to be less reliant on the mechanism.

There needs to be a long-term policy that would be able to withstand shocks, which are not necessarily economic in nature, to the system, he said.

"We need to have shock absorbers. (But) I am not advising Malaysia to give up your peg. This should be a decision for your country," he told editors in Kuala Lumpur today.

The softening of IMF's stance on the capital control measures has come in bits and pieces in the past year or so, but Kohler's statement was the strongest endorsement thus far.

Kohler is on a two-day visit en route to the Asia Pacific Economic Co-operation (Apec) gathering of Finance Ministers in Phuket, Thailand.

Kohler, who arrived on Tuesday, had meetings with Prime Minister Datuk Seri Dr Mahathir Mohamad as well as senior officials from the Finance Ministry and Bank Negara.

He also spoke to Government and corporate figures at a lunch talk organised by the Malaysian Press Institute and National Press Club in Putrajaya.

The IMF too looked to be quite different under Kohler, who took office in May 2000, than when it was led by his predecessor, Michel Camdessus.

Kohler's statements suggested that the IMF was now less dogmatic in its approach, and seemed to be more accommodative to the peculiarities of the economies of its members.

The IMF, according to Kohler, also learnt from the experiences in handling the financial crises in the late 1990s that the cookie cutter solution of one-size-fits-all cannot be applied to countries of differing levels of economic developments, socio-political status as well as cultural diversity.

"I leave it to others to judge whether the IMF is different...the IMF has to change and it is changing," he said.

IMF, he said, also needed to be more focused on interdependence of the economies, be they developing, emerging or advanced economies, especially in the rapidly globalised world.

"No longer can we preach to emerging countries what they need to do in terms of structural reforms. We need also to tell the advanced countries to undertake structural reforms."

Kohler said his visit to Malaysia was also to pay his respect to Dr Mahathir before he left office.

"Malaysia has achieved a lot and the leadership of Dr Mahathir has a lot to do with it."

Later, after his hour-long meeting with Dr Mahathir, Kohler said Malaysia should play an active role as a "valuable" member of IMF by sharing its experiences in development and assisting in the reformation of the multilateral organisation.

To kick-start the co-operation, which is aimed at making IMF more friendly and accommodative towards the interests and plight of the poor and developing nations, Kohler said IMF and Kuala Lumpur would jointly organise an international seminar or conference to deliberate on the financial sector.

Second Finance Minister Datuk Dr Jamaludin Jarjis, who was also present at the Press conference, said Dr Mahathir had agreed for Malaysia to work with the IMF for the mutual benefit of the organisation and the emerging economies.

"Dr Mahathir agreed that we support the IMF to showcase what we did during the Asian financial crisis.

"IMF wants more information on how we went through it so Dr Mahathir has agreed that Malaysia should provide all the information, the infrastructure, the policies and frameworks that was put in place during our crisis.

"We will support Kohler and the IMF," Jamaludin said.