

Ensuring Capital Flows In A Risk Averse Environment

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1. There is a belief that capital likes risks and that it thrives only in situations of uncertainty. Therefore when the risks are partially or totally removed, then capital would stay away, would not be invested.

2. Thus when Malaysia removed the risks of exchange rate fluctuations there were dire predictions that capital would not only avoid Malaysia but would leave the country.

3. As you know nothing of that sort happened in Malaysia when we fixed the exchange rate of the Ringgit and prevented excessive manipulation of the stock market by big foreign investors.

4. Business including exports picked up quickly and the KL Composite Index rose from 262 to nearly 900, reducing non-performing loans, increasing market capitalisation and relieving the pressure on Malaysian businesses. Of course there is no more cost due to hedging against currency fluctuation, nor did the fluctuation affect budgeted performance.

5. Speculators and manipulators do not like the absence of uncertainty but serious businessmen and serious investors love it. There is still some risks involved because while the rate against the U.S. dollar may be fixed, rates against other currencies cannot be fixed simultaneously.

6. Capital flow in and out of the share market cannot be controlled indefinitely. When foreigners were allowed to take out their investments in the share market, capital did not suddenly flow out. After all the restriction on taking out capital after dumping shares had resulted in almost 200% capital appreciation during the one year restriction was enforced. The investors so enjoyed the gains they made that even after restrictions were lifted they did not sell their shares. Perhaps they expected the shares to appreciate further. Today the KLCI is well above the disaster levels of the currency crisis.

7. Capital flows help the economy of a country only when the flows are inwards. When capital is suddenly pulled out for whatever reason, the effect on a country's economy can be disastrous. Admittedly capital will not flow in if it cannot get free exit. But speculative or manipulated capital flows benefit only the capitalists. Countries do not exist solely to enrich investors. The Governments of countries have a duty

to their citizens, their workers and their local businesses. There is a peculiar assumption that the world must be made the cash cow of the investors exclusively, whatever the cost. This is what free trade and globalisation seems to be about. There is no reason why the countries and the people who suffer should subscribe to this assumption.

8. Capital still flows in Malaysia's risk averse environment, i.e. serious capital intent upon making long-term investments for the production of goods and services. The flow may be smaller but it is much less disruptive. The economy benefits steadily from this serious flow even when it flows out. There are no sudden twists and turns, no distortions. Dull and unexciting perhaps, but good for developing countries especially.

9. Government intervention is a necessary part of business, even in a free trade environment. Why is big international business pressuring their government to force through globalisation? If government should not intervene then the free traders should go about establishing globalisation purely by their own efforts. But they demand international agreements, a rule-based trading system, and government enforcement of these treaties and laws. Globalisation actually involves more government intervention in business than less, i.e. the powerful governments.

10. Of course when disaster strikes them and their countries they demand that the government interfere, bail them out. If they say that business does better in an environment of risk, then they should accept all risks. We were told that we should accept risks, they are good for us. But we see that when the risk translates into business disaster, the advocates of risk taking are quick to ask government to bail them out.

11. Malaysia finds no difficulty in managing capital flows of the serious kind in our risk minimal environment. Malaysia's economy has suffered from the economic downturn in the U.S. simply because the U.S. is our biggest trading partner. Of course after 11th Sept. things got worse but Malaysia has suffered less than other countries exposed to financial and market risks. We will survive and when the world learns how to manage terrorists, we expect to recover faster than others, God willing.

12. In the meantime we are injecting government funds, stimulating local investments and facilitating the growth of those areas which are still capable of growing. We have been extremely careful about managing our finances and we have minimal need to borrow from abroad. Having a saving rate of

40% of the GDP helps. We think managing capital flows in a risk averse environment is entirely possible and easier than in a chaotic risky environment.