Chapter 9: Conclusion

As mentioned in the section 2.1, capital controls seemed to be faded away with a greater integration of the global financial market and the active lobbying for financial liberalization by the major world economies and the multilateral agencies like IMF and World Bank. Malaysia's decision to impose controls on capital outflows, although have raised much debate, it has gained support among some academics (Fischer, 1998). However, Fischer has raised concern that long experience shows that any short-term benefits that controls on outflows produce will be outweighed by their long-term disadvantages, as they encourage domestic evasion and capital flight, and discourage foreign investors.

Goodman and Pauly (1993), however, suggested that a movement back toward capital controls to influence capital flows would be more costly from a national point of view. He quoted Spain and Ireland's 'temporary' new controls on banks' foreign exchange transactions in the midst of the European currency crisis in September 1992 for examples.

However, to what extent the capital control measures work will ultimately depend on the global economy developments given Malaysia's historical record of high dependence on external factors. The current account balance or export growth is crucial in keeping Malaysia's balance of payments in good shape since, given the nature of capital flows which would prefer lesser restraints, FDI are likely to be limited and short-term capital flows will be negligible. It is to be aware that controls aimed at short-term flows puts grit in the wheels of long-term flows or the short-term actions of a long-term investor. Consequently, both long and short-term capital flows would dwindle.

Any sustained recovery in the Malaysian economy over the long-term would need a return of foreign investments. If it will have to rely only on domestic savings to grow, Malaysia won't have the ability to grow at the previously fast pace. It is also commonly recognized among the foreign analysts that the perception on