

**THE SELECTIVE CAPITAL AND EXCHANGE CONTROLS IN
MALAYSIA: A MALAYSIAN PERSPECTIVE**

BY:

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**SUBMITTED TO THE FACULTY OF ECONOMICS AND
ADMINISTRATION, UNIVERSITY OF MALAYA IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF ECONOMICS**

JULY 2000

Perpustakaan Universiti Malaya



A510947925

ABSTRACT

The latest financial and currency crisis that struck Malaysia in 1997 has exposed several macroeconomic weaknesses within the Malaysian economy, in light of the huge influx of international capital flows and speculative activities, and highlighted once again the issue of premature capital account and financial liberalization. These weaknesses such as economic growth well above potential output, loss of efficiency in the economy, current account deficits, over dependence on the banking sector for loans, which were later used for unproductive investments such as those in the stock and property markets have made Malaysia vulnerable to the shocks that emanated from the recent crisis. As a response, the Malaysian authorities undertook several macroeconomic measures including the imposition of the selective capital and exchange controls and the Ringgit peg. With a right mixture of monetary and fiscal policies, and the effectiveness of these controls, Malaysia was able to sustain its economic recovery program, which has since showed positive results. Nonetheless, the debate over the controls effectiveness on certain aspects of the economy remained debatable. Since the controls and the Ringgit peg are deemed to be temporary, planning for an exit requires a careful consideration and several issues need to be addressed before such an exit is attempted. The issues comprise of the selection of an appropriate anchor for the monetary policy, improving corporate governance, transparency, accountability and responsibility within the public, financial and private sectors, maintaining the current restrictions on offshore market transactions, promoting and using regional cooperation like the Association of South East Asian Countries

in order to check on speculative activities. The selection of an exchange rate regime should then be made based on its long-term performance and not on the basis of any short-term scenario. It is how one manages a currency regime that counts rather than which regime to adopt. Hopefully, by implementing these measures Malaysia may be able to withstand and minimize its losses in the next round of similar crises.

ACKNOWLEDGEMENTS

I am grateful to Allah Taala, the Most Gracious and the Most Compassionate, for allowing this research paper to be completed on time.

To my family – Ab. Rani, Seridah, Azmaniza, Siti Azlina and our beloved family pets Tamaguchi and Fatty– whose love, support, sense of humor and patience have helped me more than they will ever know.

In addition, special thanks to my immediate research supervisor – Professor Mahani Zainal Abidin – for her guidance, criticisms, feedbacks, cooperation and time. To my colleagues, who joined the academic program in 1998, whom I will always cherish your courage, determination and above all friendship.

Finally, to Universiti Sains Malaysia for its financial assistance that I could not do without with.

I do hope that this research paper would be useful to those who are interested in pursuing this topic. All remaining errors, if any, are solely my responsible.

To all of you, thank you once more and may Allah Taala reward you.

Muhamad Shukri Bin Abdul Rani

July 2000

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