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Bold, pragmatic scheme vital to defend currency

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THE 40th Merdeka anniversary was a proud occasion for all Malaysians and their friends. Unfortunately, it had a tinge of sadness too.

The question many asked is what is happening to our economy and our country? Why are there currency attacks and economic and social threats? Where are we going on our 40th anniversary?

We are indeed facing critical times. But I am confident we will get out of this bad patch if we keep cool, have clear minds and a firm grip of the situation.

Our economic fundamentals are strong. But they are slowly being eroded by weakening confidence in the strength of our currency. This has been caused by our weak balance of payments and the unscrupulous currency manipulators from overseas as well as in our own country!

The currency speculators will strike again. Like sharks that have tasted blood, they will return to attack when the economy weakens or bleeds again. We must be on the alert.

What are the issues at hand?

Firstly, we have to change our mindset and accept currency fluctuations as unavoidable in the real world of trade and capitalist exploitation. We sweat to build up our economies and currencies but get knocked down and kept down.

Because of our fixed mindset and some pride in having a stable exchange rate regime, we sometimes want to defend the ringgit's exchange rate against attack, however unscrupulous and unjustified it may be.

Secondly, Asean countries and East Asian or Asia Pacific Economic Co-operation countries, including the United States, Japan, Australia and New Zealand should be able to set up a significant currency safety net.

They should co-ordinate and co-operate to defend APEC countries against unjustified currency attacks. That is the challenge for APEC if it is serious about economic development.

Thirdly, the International Monetary Fund should accept responsibility to solve the problem of currency attacks. It could use its vast resources of foreign exchange reserves and Special Drawing Rights, to monitor, alert and ward off currency attacks that are ill-inspired.

Fourthly, we have to gradually build up our foreign exchange reserves.

The traditional amount of reserves, worth three or four months of retained imports, is not sufficient to resist attacks nor convince currency predators of our strength and resilience.

There has to be a new policy. We could include the huge reserves of Petronas as part of our national reserves, and why not, since Petronas has used our country's national assets.

Fifthly, we have to do much more to step up our exports and lower our imports. The private sector has to be more competitive, in production, productivity and trade especially in the privatised projects.

Our export growths are slowing down and our imports are rising. We can lower our imports of machinery and equipment. But this will mean that we have to make our own machinery and equipment.

Alternatively, we could improve our maintenance of equipment to decrease imports. Or we could repair and recondition old equipment but the spare parts and repairs may in the end cost more.

However, by reducing imports especially of consumer goods, we could slow down economic growth and consolidate our considerable achievements.

Sixthly, our Achilles heel is our weak balance of payments. This is where we are vulnerable and open to attack. As long as our balance of payments deficits get worse, we have to be prepared for currency attacks anytime. But I do not think that we are moving fast enough to raise productivity.

We might also have to delay globalisation in the light of these manipulative currency attacks which have undermined our will to globalise.

There has to be a very strong campaign to step up productivity by increasing competition at home, as a matter of urgency. Monopolies and monopolistic tendencies and undue protection have to be radically reduced. Otherwise we can be exposed to future shocks and attacks, which can debilitate our economy.

The lesson to be learnt is that our exports have not been sufficiently diversified. Electric and electronic products which constitute about 53 per cent of our exports have been badly hit by the lower external demand.

Imports could be reduced to improve the balance of payments. But how do we do this? The best way is to phase out or defer the huge projects. This can be a costly exercise.

Contractors have to slow their pace, workers will have to be retrenched and compensation needs to be made to contractors for loss of income. But we have no choice.

It is *deja vu*. I recall that we made these kinds of tough decisions when the economy was under strain in the early 1980s, and it hurt. But we have to bite the bullet. We are better off today than in the 1980s because we do not have a world recession, so it is easier to be decisive today.

Seventh, private sector debt is another problem. It has grown rapidly from RM6.7 billion in 1991 to RM32.4 billion in 1996. This factor alone can cause anxiety among foreign investors. This is largely due to rapid privatisation. We have to slow down.

The rate of private investment growth has also declined from 29 per cent in 1995 to only about 10 per cent in 1996. The Treasury estimate of a rise in private investment by about 17 per cent for 1997 to RM85 billion may not be achieved under the circumstances.

Foreign investment is moving away from Asia to the US and Latin America. Malaysia could lose out too. We may need to relax our foreign ownership rules that require majority domestic ownership, to attract more foreign capital. We will have to allow 51 per cent foreign ownership in more areas.

Given the problems facing the economy, it is important to design a bold strategic plan to get on top of the situation.

Prime Minister Datuk Seri Dr Mahathir Mohamad has rightly stated that the ringgit should be allowed to float freely. This is the best solution as any intervention should only be made to smoothen sudden changes in the exchange rate.

The real solution is to ensure that our balance of payments get stronger at a faster pace. This means our efficiency in the provision of services and in production should increase, both in Government as well as in the business sector.

Urgent action should be taken to announce the postponement of new and on going specific major projects, with high imports, and initiate a Buy Malaysia Campaign.

We will also need to build 'Smart Partnerships' with Asean and East Asian economies to defend ourselves against unscrupulous currency manipulators.

We could establish a East Asian Currency Fund to discourage and resist the attacks of irresponsible currency manipulators.

Our national reserves will have to be built up gradually to higher

levels than the present three months reserves. We could build up reserves to six months worth of imports.

The Tobin tax to discourage speculation and many other instruments can be redesigned and introduced in the 1998 Budget. Some of these measures do not have to wait for the Budget presentation on Oct 17. But the Budget has to be very bold, otherwise public confidence will slide further.

The IMF should be asked to come out with better proposals and monetary mechanism to counter unscrupulous currency manipulators before they attack, and not after the horses have bolted from the stable.

The IMF should realise that the industrial countries can also suffer from the fallout of currency attacks on the developing countries.

The Malaysian economy must consolidate and become more competitive.

Unless we become more competitive, our balance of payments will continue to be weak and the ringgit will be vulnerable to unscrupulous currency manipulators.

The establishment of a RM60-billion fund to prop up the KLSE is a bold move. Its benefits in the long term are uncertain. But it will help to realise Government's goal of increasing Bumiputera equity shares.

It is good that our Prime Minister is not going to meet financier George Soros. Why should he be dignified for his dirty work? It will be better to ignore him and instead just monitor and counter his moves through our own as well as regional efforts.

I believe that given our track record of pragmatism and a will to succeed, the economy will come out all right.

In the meantime we have to introduce a bold strategic plan to strengthen national resilience to successfully fight off future currency attacks. We have to act urgently with both short- and long-term measures.

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