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Learning lessons the hard way

PRIME Minister Datuk Seri Dr Mahathir Mohamad appealed for companies to work with other sectors to help put the Malaysian economy back on track. Firms need to realise that they must treat the present economic slowdown as well as the uncertain outlook for the business environment as valuable lessons to be remembered even after growth has been restored. Malaysians, unlike elephants, seem to have short memories. The local business community always manages to swiftly forget the lean times when the going is good. A few days ago, Economic Adviser to the Government Tun Daim Zainuddin ticked off the corporate sector, saying, in effect, that corporations had brought upon themselves the burden of over-exposure they now face by diversifying into too many sectors too fast.

In recent years, the corporate field has seen a great deal of plantation land being converted into residential and commercial property. Many corporate planners were attracted to the quick millions promised by the lucrative property sector. Borrowings were relatively easy as financial institutions were flush with cash and Malaysians were making a great deal of quick money in the stock market. Fund raising exercises were almost always over-subscribed. If local facilities were short, some corporations did not even think twice about borrowing offshore. In fact, at one time, fund raising using debt securities denominated in the US\$ became a fad among the larger companies. Some felt that since they were increasingly involved in overseas projects, having a good portion of US bondholders would make them look international, rendering it easier to secure offshore contracts.

One cannot deny that some of the so-called new ventures have been in new and uncharted territories. Thus, the growth of corporate Malaysia is not organic in nature but is largely based on acquisitions which were mostly leveraged to boot. It is difficult to find a single company on the Kuala Lumpur Stock Exchange that has remained in the business they were in when they were floated.

The Prime Minister also touched on the public's obsession with stock prices. Daim also mentioned the subject recently. Indeed, since 1993, the stock market fever has run so high, that people, even in rural areas, were beginning to get acquainted with investing in shares. The sad thing is that few have been investing for the long-term as most were in for fast gains amid the sky-rocketting prices. There had been talk that the local bourse was over-priced, but even the so-called analysts in stockbroking houses were quiet. Their outlook was bullish and pushed investor's hopes - and share prices - even higher. Initial public offerings were oversubscribed, sometimes by more than 100 times as investors dumped their money into the new offerings. They did not even think about what the opening day price would be as their main concern was that their applications be successful. In their minds, they were sure of making handsome gains, even on the first day. Sadly, many did not even care what the companies they invested in were doing.

These are but some of the contributing factors to tough times facing Malaysia now. "Prudence" was regarded as conservative and rhetorical. Chief executives officers and company directors glowed in the media limelight as they signed on the dotted lines to commit their companies to new projects and new debts.

For all Malaysians, including the ordinary man who for the past decade

has not thought twice about spending a few thousand ringgit or more on shopping trips abroad when the goods they purchased could have been made just north of Kuala Lumpur, the current lean times must be seen as a harsh lesson. Ideally, when the economy recovers, Malaysians should spend in-country, live within their means, actively save, manufacture as many goods as possible, stop punting on the stock market, make well-calculated corporate decisions and stop borrowing overseas. If we still remember this one, we should not fault anyone if we forced to learn the same lesson over and over again.

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