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Light at the end of the tunnel

THE ability to see the light at the end of a tunnel is not something economic forecasters are very good at; they are better at predicting doom and gloom. They were in the dark like everyone else, according to regional experts who were obviously irked by the revised ratings issued by two international rating houses this week on countries affected by the regional turmoil. According to these experts, Standard & Poor's and Moody's must have been been "sleeping on the job" and "dragging their feet". If they had been alert, they would have warned investors about the vulnerability of Asian economies at least six months ago, when the symptoms of the slowdown first surfaced.

There had been other revised projections earlier, including one by the International Monetary Fund which has been accused of being too pessimistic in its revised forecasts. Governments in the region have also revised downwards their growth forecasts, though not as drastically. Malaysia, for instance, has lowered the growth forecast of its Gross Domestic Product to 4-5 per cent from around 7 per cent in 1998. Other less reputable international economic forecasters have made guesses on how long the turmoil will last and how much longer the implications will linger. More often than not, their outlook is grim. If there is a light at the end of the tunnel, they certainly do not see it.

It was therefore a pleasant surprise to find that the international investment banker, Dresdner Kleinwort Benson, holds a very different view. Dresdner was effectively saying - in its latest report on Asia issued this month - that the light is visible and the length of the tunnel that Asia entered in July has been greatly exaggerated. Dresdner asserted that the negativity surrounding Malaysia has been greatly "overdone" and added that foreign perception tended to see weaknesses not strengths and these misconceptions had caused stocks, markets and currencies to overshoot. These misconceptions will be revealed for what they are and markets will turn when the direst predictions prove to be false. "The key to 1998 is to understand these misconceptions so that the evidence against them can be identified as it appears."

The people of Asia who have been affected by the turmoil must not be lulled into believing that they need not feel pain or make sacrifices. The road to recovery will be painful for many, if not for all. Dresdner Kleinwort Benson did say that household income growth in Malaysia will slow down to 5-8 per cent from 10-12 per cent, that the electronics export growth is weak and may continue to decline and that there have been excesses in borrowings from both domestic and foreign sources.

But negative perceptions about over-lending to the property sector, for example, was misplaced since the bulk of mass residential housing will continue to sell and is no threat to bank balance sheets. Wealth also shall continue to be generated in Malaysia. The transformation from highly-g geared medium-sized developers to an industry increasingly dominated by large plantations is significant as the latter have strong balance sheets. Land is also cheap and with debt kept to a minimum, there will be no pressure to sell in a weak market. Only the upper end of the market is vulnerable and this is a relatively small portion. Dresdner also looks at the country's track record and concludes that Malaysia under Prime Minister Datuk Seri Dr Mahathir Mohamad has shown the ability to take tough decisions and deal surgically with problems. The late 1980s

recovery was the result of letting numerous entrepreneurs collapse, slashing infrastructure spending to 3 per cent of GDP from 5 per cent while slaughtering the sacred cow of reducing foreign ownership to 30 per cent and otherwise diluting the pro-Bumiputra New Economic Policy, it said.

It is indeed true that many of the strengths of the country have been overlooked by economic forecasters when they make their predictions about where Malaysia will go from here. Since even South Korea, the 11th largest economy in the world, has been brought to its knees, many think that Malaysia stands no chance in trying to avoid the IMF. Dresdner Kleinwort Benson thinks that this is a misguided perception and the investment banker is not the only one to think so.

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