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## Measures to restore confidence in economy

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THE 1998 Budget was quite tough but painless to the rakyat. It attacked the major threat to the economy which is the balance of payments deficit.

The public's response to Deputy Prime Minister Datuk Seri Anwar Ibrahim's Budget was generally favourable, but many foreign analysts and currency manipulators were not so satisfied.

However, Anwar who is also the Finance Minister has shown an open mind. In his Budget speech, he said: "The Budget will be followed by additional measures, if necessary."

This is encouraging and should put questions and concerns about its effectiveness at rest, for the time being at least.

The Minister rightly pointed out that he was concerned about attaining a balance between the two strategic objectives of the Budget.

They were to restore confidence in the economy through firstly, sustainable growth at seven per cent per annum and secondly, to ensure that the balance of payments deficit is reduced. But lower growth rate could sap confidence and precipitate a severe slowdown.

If our economic fundamentals are generally sound, then why should we take more drastic action than those introduced by the Budget?

But unfortunately that stand now seems to be based on "conventional wisdom". What appears to be the "new phenomenon" as described by some World Bank officials, is that even a country with traditionally strong fundamentals like Malaysia (and even stronger economies like Singapore, Hong Kong and Taiwan) could be attacked by currency manipulators with impunity. We therefore, need to use new unconventional wisdom.

International currency speculators are now using new economic fundamentals as their criteria to judge economic strength.

It is no longer enough to have high economic growth, low inflation, high employment, business-friendly investment policies and political stability.

Now the currency speculators want to review plans for mega projects and their return on investment, have low private debt, curb the high levels of commercial bank lending, and see high exchange reserves (higher than the hitherto satisfactory three months of retained imports).

They also want to assess the regional economic performance and prospects, due to the problems of the Thai economy that started this financial turmoil.

I might add that the major currency manipulators who are mainly from the West are also not very discerning about countries in the South.

They seem to have a machine gun mentality. Thus they shot from the hip at several countries in the region, when just one was in trouble.

We have to accept the reality that we will continue to be judged by new criteria that will be more demanding and unreasonable.

We could even be subject to new standards underlined by the resentment and even reluctance to see developing countries do as well, or even better than the industrialised countries.

Malaysia and other successful emerging developing countries have therefore to adjust their economic fundamentals. We will have to also initiate monitoring systems to better defend ourselves against currency attacks.

We have to be realistic to realise that there will be continued external desire to dominate, and to exploit any weakness in the emerging countries.

What are the new policy measures if necessary, to restore confidence in

the economy?

What are the measures that we have to adopt, to resist currency attacks, concerted or otherwise?

Firstly, East Asian countries and Asean in particular will have to co-ordinate economic planning. We need to monitor, advise and even collaborate more closely, to prevent future national economic crisis like Thailand's.

Secondly, we have to develop a strong Asian currency safety net. Japan could take the lead together with China with their vast foreign exchange reserves. The US and the International Monetary Fund will need to be persuaded to reduce their resistance to this safety net.

After all, a weak Asean and an unstable East Asia will also ruin US trade and investment prospects in Asia. The recent consequent collapse of Wall Street should be an object lesson to the US.

Thirdly, Malaysia and other emerging economies in the South will have to work the new economic fundamentals into their long term planning.

The major currency speculators and manipulators are demanding these changes. It might be unfair to be so demanding but world history is full of examples that show that might is right.

Fourthly, whether we like it or not, the reality is that we will need to work more closely with the well meaning fund managers to identify and correct the changing perceptions of our economic and financial developments.

Fifthly, we cannot keep expanding our economy at breakneck speed for too long. The ensuing economic strains have to be recognised early, and acted upon.

Economists and market sentiments will need to be given more credibility, if we are to avoid pitfalls.

Sixthly, we will need to become more self-sufficient. Our savings have to increase or our investments must be curtailed to match savings.

Seventhly, our extensive reliance on short-term financing should be reduced. It would be better to get more long-term foreign direct investment rather than raise funds from the share market. Hot money would have to be discouraged more effectively.

Eighthly, the authorities have to be much more diligent in regulating lending to property development, the share market and non-priority sectors.

If Bank Negara monitors and curtails unproductive lending more stringently and in a more consistent manner, then there will be no need to introduce sudden curbs that shock the market.

Ninthly, interest rates need not have been raised at the time of the Budget, as was anticipated by some fund managers.

However, interest rates are part of monetary policy that can be introduced any time. This may well be the opportunity to raise it slightly to help strengthen the ringgit, and curtail consumption and increase savings.

There are of course disadvantages in raising interest rates as costs of production and prices can also go up. Hence, rates should be raised gradually and with restraint. Otherwise we will need to do more on the fiscal side, such as cutting expenditure further!

Finally, we should all believe more in ourselves and strengthen self-confidence to overcome the crisis. We would worsen the situation if we lose our will to win.

Strong Government leadership and a positive business psychology, with wide public support and some sacrifice, will help a great deal to enable the economy to emerge stronger.

Thanks to Prime Minister Datuk Seri Dr Mahathir Mohamed, there is now

growing global consensus that the currency crisis has to be studied and addressed by the IMF.

The United Kingdom as the leader in the Commonwealth could influence the powerful G7 industrial countries to do something concrete about the threat of currency attacks and the consequent economic damage suffered by the small, weak and poor countries.

Even the industrial countries are now being threatened by the crisis. If they do not take the necessary initiatives, then they must face the risks of facing economic war and increasing political and security instability in the global village.

With globalisation, we will be too close to each other to have only winners. We could all lose.

We will need to develop a New World of Smart Partnership for mutual peace and progress or lose it all.

The Budget has to be reviewed and revised if necessary, in this global context. We will have to be more sensitive, vigilant and proactive in the future in order to sustain our impressive progress.

Hopefully Deepavali - the Festival of Lights - will usher in a brighter future for us all.

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