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Playing Asian economic dominos

Datuk Abdullah Ahmad

IN this first part of a speech he delivered last Friday at Harvard University's Kennedy School of Government and Politics, Datuk Abdullah Ahmad, Malaysia's special envoy to the United Nations, argues why the economic problem in South-East Asia will blow over soon.

The Asian currency flu bug is still making news around the world including here in the US. Countries in the region are being "lumped" into one instead of being looked at individually. And herein lies your very first mistake.

Undoubtedly, there are problems in some countries, Thailand in particular, but it does not mean that every country is affected to the same magnitude.

However, it is in bad and good times, such as now, that friends stand up to be counted, and international and regional cooperation must prove its worth in deeds.

Malaysia, though economically limping herself, contributed US\$1 billion (US\$1 = RM3.50) each to Thailand and Indonesia, which are in a worse position than us.

Malaysia could do this because it has the necessary reserves, derived from five years of budgetary surplus. Malaysia also had a higher savings rate and more reserves than either of its two big neighbours. Of course, Singapore has much more because it is smaller and thriftier.

Take Malaysia for example, on June 17 this year, Mr Michel Camdessus, the managing director of the International Monetary Fund (IMF), cited the country as being a good example where, and I quote, "authorities are well aware of the challenges of managing the pressures that result from high growth and maintaining a sound financial system amid sustained capital flows and a booming property market."

"Of course, the life of policy makers is always easier when one starts, as Malaysia did, with a long history of low inflation and an outward-oriented economy. However, further significant progress has been made in dealing with new challenges.

"Over the last year, output growth has moderated to a more sustainable rate and inflation has remained low. The current account deficit - which is primarily the result of strong investment spending - has narrowed substantially.

"The increase in the fiscal surplus targeted for this year is expected to make an important contribution towards consolidating these achievements.

"The Malaysian authorities have also emphasised maintaining high standards and sound practices in banking. Non-performing loan ratios of financial institutions have fallen markedly in recent years; risk weighted capital ratios are above Basle recommendations and steps have been taken to restrain lending for the property and stock market sectors.

"In an effort to increase the flow of comprehensive up-to-date and reliable information to markets, Malaysia was among the first to subscribe to the Fund's Special Data Dissemination Standard. Of course, as the Governor of the Central Bank of Malaysia, Tan Sri Ahmad Don, said recently, "despite this positive outlook, there is no room for complacency.

Given rapidly changing market conditions, there is a need to remain ever vigilant. That is true for all countries. And it is the kind of attitude

that fully justifies the confidence of the markets about the positive prospects of countries persevering in such endeavours".

Only six months ago, Thailand, Indonesia and Malaysia as well as Singapore were widely pictured as being miraculous, or nearly miraculous engines of endless growth, and now we are being portrayed as weak and ailing.

The irony is that, in many cases, the portrayers are the very same people - the credit raters, the economic gurus, or Cikgus as we say in Bahasa Malaysia. The real question is whether their gloomy reviews now are not as misguided as their roars and raves were before July 2.

Soon after the rosy picture dissipated, it was said that fund managers had lost confidence in the Malaysian economy "due to its weak fundamentals". The ringgit, just as the baht, the peso and the rupiah, suddenly came under attack. Not even the Singapore dollar escaped unscathed. Indeed, no one was spared.

Fund managers panicked and pulled out. Not only did the currencies come under attack, so too did the stock markets - including those that were fundamentally sound and had "sound financial systems".

Some rating agencies were cautious, because they too, like some others, lumped together the economies in South-East Asia as one region rather than different economies. However, the IMF remains positive about Malaysia.

Camdessus last week (November 13) described Malaysia's economy as "solid and prudently managed". He did not foresee the country seeking financial aid following its currency problems.

Malaysia is neither Thailand, Indonesia and the Philippines nor is it Singapore. Malaysia is Malaysia whether one likes it or not, and I hope we remain so.

Malaysian Prime Minister Datuk Seri Dr Mahathir Mohamad last week repeated his accusation that the present financial woes in the region were due to greedy currency traders who had decided to take everything for themselves and had impoverished their Asian partners and hosts in the process.

According to Dr Mahathir, these traders had robbed the region to the tune of US\$200 billion. In the case of Malaysia, it had lost US\$30 billion as its per capita income had been reduced from US\$5,000 before the ringgit depreciated to US\$3,500 or by 30 per cent. Within six months we lost 30 per cent of the wealth which had taken us over a decade to acquire and save.

Dr Mahathir had warned the region that the speculators would next find ways to prevent the export of goods from South-East Asia (after attacking its currencies and economies), and that they would also persuade others not to import goods from South-East Asia. All this because they wanted "to prove their predictions and forecasts correct by devaluing our currency".

If Asians take Dr Mahathir's warning lightly as some will, that will be a major mistake.

Beyond Malaysia, I am confident that the situation will be brought under control soon and the economies of these countries will begin to pick up, even if recovery is painfully slow.

Asian leaders are pragmatic enough and have shown that they can if they choose, take the bull by the horns and face the challenges ahead.

Various economists and analysts, including our own Mr Jeffrey Sachs, have pointed out that "Asia's success has been built on substantial foundations".

Indeed, the rapid and sustained growth of many South-East Asian economies in recent years has been due to their pragmatic policies, high savings rate, foreign capital investments and private sector initiatives as well as exports.

We will continue to do all this, perhaps importing less and exporting more, encouraging higher savings and going on a diet and eating health food. We will make ourselves more attractive.

I should not be surprised if we made ourselves so competitive that few will be able to resist the temptation. I am a perpetual optimist. Just watch my lips, and if you didn't, this will be your second mistake for today.

Interestingly, the Geneva-based World Economic Forum in its latest ratings has listed the South-East Asian economies as being competitive.

Except for the Philippines, which recorded a 0.11 per cent decline in its competitiveness and was ranked 34th on the ladder, other countries ranked very well compared to many developed countries.

Singapore was the leader, being the most competitive and in a better position than the US which was in third place. Malaysia was ranked ninth, ahead of Japan, Sweden, Australia, France and Germany. Indonesia was ranked 15th and Thailand 18th. We shall attempt to be among the top five in terms of competitiveness in the future.

The IMF has provided standby credit facilities to Thailand and Indonesia. It did not come immediately. That was your third mistake. The IMF, or even the US, should have come to Thailand's help faster than it actually did.

One good thing about the crisis is that it has highlighted the need for countries in the region to work even more closely together.

The crisis has also proved the need for an Asian monetary fund. The Asians can then take immediate measures rather than depend on help that may not come and if it does, it may be later rather than sooner as I have just said.

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