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Should we believe what they say?

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SHOULD we believe the prophecies of Malaysia's economic disaster? Is the current slowdown as bad as the West has made it out to be?

"Pundits the world over gave Mahathir an F on his economics," said Newsweek in its Sept 1 issue. "Confidence has yet to return to Malaysia. A budget announced two weeks ago failed to do the job," said Time (Nov 3). "The voice of the market cannot be shouted down... Did his (our PM's) angry diatribes against the West and Soros help or make the situation worse in Malaysia and the region?" asked the Singapore Sunday Times (Nov 2).

Many things can happen in three blinks of an historical eyelid. In the first, Malaysia and its leaders were the toast of the world, gracing the covers of international newsmagazines.

The currency and stock market turbulence, however, flashed by in the next blink, and by the third, our leader - and us - had become media pariahs.

The imbroglio was sparked by the collapse of the Thai economy. On Oct 10, investors started selling bank, finance and property stocks on rumours that a property development firm was facing cash problems. They feared that its woes would have a "knock-on" effect on others.

That day, the Stock Exchange of Thailand closed at its lowest in more than three years.

The situation was not helped by the fact that Thailand had one of the worst current-account deficits in the region, paid for with short-term borrowings. Suddenly, despite its 10 years of substantial growth, Thailand's trade and financial imbalances were the focus of world attention. There was a brutal withdrawal of floating capital. A liquidity crisis ensued.

On July 2, the Thai authorities were forced to give up the baht's peg to the US dollar, sending the Thai currency into a free-fall.

Thailand did its best to ward off speculators by keeping short-term interest rates high: this made it expensive for speculators to borrow bahts that they could then sell in currency markets. But because of weak economic fundamentals, the efforts were doomed.

Then the 30 per cent devaluation of the baht - the figure now stands at over 50 per cent - alerted currency traders across Asia and led to panic selling by companies which wanted to protect themselves from losses resulting from their large dollar-denominated debt.

These companies started buying dollars to hedge their risks against future devaluation. Traders, on their part, figured that the economic fundamentals were against Asian currencies. Consequently, a "domino effect" led to a selling frenzy all over Southeast Asia.

Malaysia, Indonesia and the Philippines were hit, almost in tandem. Next was Hong Kong, which brought down the US stock market with it. But how bad is the situation for Malaysia?

For it to be as bad as painted by our detractors, the bench-mark would have to be the mid-80's recession. Are there similarities?

"Fortunately for us, Thailand got hit first, so to some extent we were able to anticipate the necessary measures to be taken," says a local analyst. "We were able to analyse the steps Thailand took, and we found out beforehand which worked, and which didn't. This would run counter to what happened in the mid-80s when it took years before we could implement

the necessary steps to correct the situation."

Instead of a drastic hike in interest rates, which the analyst describes as "the usual textbook response," Bank Negara has opted for measures which would not jeopardise growth "which the Malaysian economy needs to maintain, albeit at a slower pace."

"To get as bad as predicted in the future," the analyst says, "we will have to go to a very low percentage of growth for 1998.

"This would mean close to one to two per cent growth, which the numbers and statistics simply do not support."

For Malaysia to have such low levels of growth, certain sectors like agriculture and manufacturing would have to have negative growth. "In order for that to happen," says the analyst, "you would have to see mass retrenchments and shrinkage of wage levels, close to the magnitude of what we went through in the mid-80s, which are highly unlikely to happen in the near future."

Another factor to consider is that Malaysia still has sound fundamentals, high reserve levels and sound monetary policies.

Malaysia's reserves remain relatively high, at 3.7 months (we have enough money for 3.7 months of imports) or RM61.9 billion, which is healthy, as the IMF standard is three months.

"Thailand's reserves went to as low as one month, which contributed much to their currency and market downfall. Our reserves, as well as high savings rates, should be maintained," says the analyst.

However, there are difficulties ahead. "Interest rates will have to be raised, though not as sharply as to raise the possibility of recession, so we will have to realise that in the next year," add the analyst. "At the very least, things will get tough."

In Indonesia, the sharp rise in interest rates caused a further weakening, leading to the closure of 16 banks. "It was a bitter pill to swallow, especially to those with close connections to the political leadership, but one that probably was necessary," the analyst says.

The ultimate test for Malaysia, the analyst reckons, would be whether Malaysians, from the poorest to the well-connected, are willing to accept the hardships that are in store for the next few years, and whether businesses are able to adapt and take a long-term view.

"Our economy is like a marathon runner down with high fever. We must firstly cure the fever, then send him on his way," says the analyst.

By analogy, then, scolding the runner for not taking his vitamins would not help, for in this challenging period of our development, the one surety is that all Malaysians should rally together to stay the course.

Confidence, the concept long touted as the best vitamin for economies, is what we should be prescribing not only for our economy, but for ourselves. We have everything at stake.

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