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Time for a confidence booster

Albert Cheok

THE country is going through some financially turbulent times. The ringgit has depreciated dramatically against the US dollar, followed by a sharp fall in the Kuala Lumpur stock market. What does it all mean? Bangkok Bank Bhd chairman Albert Cheok addresses some of the issues. Cheok, who is also an advisor to the Bangkok Bank Group and has 22 years of experience in the banking industry, feels the present situation should be viewed positively, as a way of preparing the country structurally and competitively for the next cycle of economic growth.

The Malaysian economy seems to have been hit by a financial cyclone, the ringgit and the stock market have fallen sharply and the momentum of economic growth has stalled. Prime Minister Datuk Seri Dr Mahathir Mohamad has said that our national economic worth has been pushed back 20 per cent. What is your assessment of the economic situation? What should Malaysians be expecting economically in the period ahead?

I believe that the worst is over. However, this is not to say that we should expect a quick return to our high growth days. One might imagine that we have been hit by a bout of economic flu. As in the case of flu, we should let the fever run its course. When you are ill with flu, it may be rash to be up and about too quickly. Clearly one should not be up running. You might remember that in recovering from flu, our mothers would place us on a bubur diet before returning us to solid meals. For the same reason, it would be prudent for the economy to proceed at a slower pace for the next year or two. It would be unwise to rev the economy back to eight to nine per cent growth. One should not feel embarrassed about slower growth. On the contrary, it should be viewed positively as preparing the country structurally and competitively for the next cycle of economic growth. It forces the economy to rid itself of excesses, reminds itself of the need for financial and competitive discipline and sucks in fresh talents and innovation.

Everything was running along so well and smoothly until recent months. So what went wrong? Did foreign investors sell us short and drive down the ringgit? Did the Sorosés of the world pull the plug on Malaysia?

George Soros does not deserve the attention that has been given him by our Prime Minister. He is just another player in the market place, albeit a large one. Economic outcomes reflect the balance of decision by thousands of individual investors, some large but mostly small. The ability of any particular individual large investor to influence trends would be lessened if there are many others to give diverse and alternative views. Perhaps what is needed is many different Sorosés taking different views. This would avoid the market swinging too much and too quickly in a particular direction.

The recent reassessment of the regional economies, including Malaysia, reflected not so much a deterioration in our economic profile but rather a strong improvement in the performance and prospects of our major trading partner, the United States and our distant competitors, for example Mexico and Eastern Europe. Accordingly, the US dollar has strengthened sharply. As in a seesaw, when one end of the currency link (US\$) goes up, the other end (eg ringgit) must come down. This is the market's way of telling us that our competitors have moved ahead of us in the present lap of the economic race. Depreciation is not necessarily a dirty word. A lower ringgit can help to jump-start our exporting economy.

Many investors in the share market have lost money. The property market has slowed, and we should brace ourselves for less prosperous times ahead. Some of our national dream projects would have to be deferred. Couldn't the government and Bank Negara have better prepared us for or insulated us from such sharp economic swings?

For those of us in the market, there has been an inkling of some sort that a slowdown would be imminent after running the economy at eight to nine per cent growth for a decade. Taking a breather may be welcoming, both to take stock and to re-equip ourselves for the next lap. However, no one knew when the economy would turn. Those who expected it to come in 1996 or earlier had taken appropriate investment moves and done well. Those who were caught in the present situation were mainly those who believed that the economy has a 'second wind' to keep on growing. In short, it was not a case of the economy being widely caught off guard. Of course, many small and less well informed investors have found themselves stranded.

I believe a better financially informed community will result in a better financially prepared society. The government should stand as a permanent voice of prudence perpetually promoting thrift and urging caution about speculative investments in the wider community. We must not allow an euphoria of prosperity to turn the country into a 'bubble' economy. In this regard, I must commend Bank Negara as a pillar of sound economic management. The Governor has informally been urging banks since 1996 in whispered conversations to exercise restraint in extending loans for share and property purchases. He firmly put his foot down early this year when he announced official limits on such lending. I recalled that the announcement made him rather unpopular in the market. Seen in the present light, he has done the country great service in preventing a speculative bubble in the property and share markets. Otherwise, the recent economic downturn would hit us much harder.

All that said, it would have been better, with the benefit of hindsight, if exchange rate regimes in the region, including Malaysia, have been more responsive and flexible. By late 1996, it should have become apparent that the ringgit should be trading lower in view of the strengthening US dollar. However, having grown accustomed to a stable relationship between the ringgit and the US dollar, there was a reluctance to free that link. Small adjustments in the exchange rate spread over time would be easier to tolerate. It is so much more painful for the community to cope with sharp changes in the exchange rate and share prices.

In the wake of the attacks on the regional currencies there have been fresh calls for tighter regulation of the financial system. There are others who believe that what is required instead is further financial liberalisation. What is your view?

Financial liberalisation has brought tremendous benefits in promoting economic growth and international trade. It would be retrogressive to impede that process. The swift and substantial flows of funds in and out of countries demonstrate that market mechanics are working with much greater efficiency and severity. We can choose to be afraid of new technology or learn to harness it to our advantage. This should be the same with financial structures and technology.

In our present situation, it would be easy for us to forget that it was foreign capital inflow that had helped boost our stock markets in the late eighties and early nineties. It was not unusual then to see certain counters jump 20 to 30 folds. However, when foreign investors recently wish to take their money out, we expressed concern. We should learn to take the ups and the downs.

Of relevant concern, however, is that the economic swings of ups and

downs should have been that large. Financial and economic stability requires that there be minimal rigidities in the structure of the financial system and in the broad economy. When you are driving a sports car at 100 mph, hitting a kink on the road can send your car bumping or worse. That can be uncomfortable, as we are experiencing economically now. A good car needs a good road. So what are these kinks in the economy? It would be a long list. However, to name a few.

* With the various restrictions and requirements on direct investment in properties and businesses, our foreign investment policy nudges foreign investments to go into the purchase of shares, financing of transactions and making deposits in the banking system. In short, foreign investments come in as 'hot' money which are more readily taken out. What is easy to come in would end up being easy to take out. We should facilitate more direct investments. That way the foreign money stays on the ground longer.

* There should be better synchronisation between the domestic price (interest rate) and the external price (exchange rate). It is not unlike riding a bicycle; the pedalling must be well synchronised. While it is difficult to know what would be the right trade off between the interest and exchange rates, one cannot hold the exchange rate high without keeping the interest rate high. We cannot have the cake and eat it. In my view, exorbitantly high interest rates would be punishing on businesses. If we cannot tolerate high interest rates, we may have to tolerate having a lower exchange rate.

* While Bank Negara has a fairly wide watch over the financial system, its brief is not total. In recent years, the central bank has kept a fairly tight lid on expansionary and inflationary tendencies. However, there has been a leakage in the wall on the equities front. Equities are of course outside the direct purview of Bank Negara. From what I gather, if you look at total bank lending to gross domestic product (GDP) it is tolerably modest at below 100 per cent. However, if you look at total lending (bank and non-bank) to GDP the figure shoots up to above 150 per cent. The suspicion is that much of this extra has come from foreign lending and that much of this has gone into the stock market. One way is to give all policy responsibility on monetary and financial stability to Bank Negara and shift its supervisory role to another agency. This would relieve the central bank of much mundane work.

In short, what is needed is more liberalisation rather than more regulation of the financial system.

The next budget will be tabled in parliament on Oct 17. What suggestions would you give?

Normally, the budget attracts only local interest. The coming budget would be different. The whole world would be watching. So this must be a budget written and prepared for a wider audience. It would therefore have to be a telling budget. The issue at hand is confidence, or more precisely how to revive confidence in the Malaysian economy.

Therefore, it should not be the usual number crunching budget. It should be a confidence booster budget. If you can revive confidence, you will attract foreign investors back into Malaysia. The economy will bounce back. Our international reserves will build up and the ringgit will strengthen.

What foreign investors would like to hear, which incidentally coincides with what the economy needs, is a budget which would restore financial discipline and financial credibility. It must be a budget stamped with surpluses.

The budget must announce a convincing fiscal surplus. Expenditures must be reined back. Big projects should be deferred or cancelled; names would need to be mentioned. However, projects which add to our productive

capacity, eg improved transportation, should be continued. Savings should be visibly promoted. This would signal to the world that we intend to borrow less from overseas and rely more on our resourcefulness.

It would be advisable to strike at conspicuous consumption. A small VAT may be in order. Luxury goods should be more heavily taxed. The budget should aim towards the direction of an external surplus. It will have to be an export led recovery. Exports should be promoted and imports discouraged in appropriate and internationally accepted ways. Tourism should be heavily promoted as it is a ready made export. We should increase our reserve surplus. A key defence against speculative currency attacks is to accumulate international reserves, which can only come from foreign investment and surplus in our international trade. It would be a good idea to keep the exchange rate at the low end to stimulate exports and make our goods more price competitive.

In the final analysis, this must be a budget to restore our international competitiveness. Our present economic condition has not come about because our economy has worsened but because our trading partners have out paced us in the last couple of years. So let us have a budget that will restore our competitive vigour and show the world that Malaysia Boleh.

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