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US media overlooked the positive factors

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IN economics, no two economists have the same views. This is primarily due to the differing econometric models they adopt as their philosophical base.

By the same token, the argument can be extended to economic analysts and strategists. The former base their analyses on current data and near future estimates while the latter's strategy is based on trends of the flows of economic data. Despite their different perspectives, almost of all the prognoses, especially of American writers, analysts and strategists of the Malaysian economy do not paint a pretty picture.

Encapsulating the views of writers in various publications ranging from American-based Fortune, Time, Newsweek to the regional newsmagazines that are controlled by American companies like Asiaweek (owned by the Time-Warner group) and Far East Economic Review (a Dow Jones company) that is as American as the apple pie, are the comments in one Fortune column, Abacus (issue of Nov 24).

The standfirst of the column under the heading "Mahathir Mohamad's Very Bad Bet" appears to be the consensus of many writers on the prospects of the Malaysian economy. "Despite warning signs, the man (Prime Minister Datuk Seri Dr Mahathir Mohamad) who built Malaysia up is sticking with a calculated policy gamble that may well lead to a Thai-like economic meltdown."

Economic meltdown is a phrase of current vintage used freely and widely by almost all international and regional publications since their reporters filed stories on the currency and equity markets of Thailand effectively applying the brakes on the barrelling 10-year double-digit growth of that country.

Since last June, our northern neighbour has had to weather a battering of their currency and stock markets, resulting in heavy losses. As of Oct 31, the market capitalisation of the Thailand Stock Exchange was almost halved. The baht during the same period was effectively devalued by 58 per cent. The consequences of both, the economic pundits quoted by writers, mean that the GDP growth of Thailand would be negative this year.

That is what the writer of the standfirst and others mean by a Thai economic meltdown. But before we analyse whether our country would be forced to take the same road, let us examine the assessment of a person no less an import than the managing director of the International Monetary Fund, Michel Camdessus.

The IMF boss was in town last week. After meeting Deputy Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim on Thursday Camdessus told the Press that the country's economy was "solid and prudently managed". He added that the country could cope with its problems, especially after measures have been put into place to strengthen the financial sector and limit credit expansion.

This view is diametrically opposite that of Jim Rohwer, the writer of the article in Fortune. Rohwer writes: "In the midst of modern East Asia's most serious financial crisis, Malaysia's Government has chosen not to heed the market's forceful demand for structural reform but is instead making a huge bet on the status quo. If the bets go wrong - and the odds are that it will - the now relatively calm Malaysian economy will by next spring be plunged into chaos of Thai-like proportions, with even worse political turmoil."

The last phrase, "with even worse political turmoil", is but one manifestation of the writer's ignorance of the socio-economic and political character of the country and others in the region.

We went through the storm of a recession over a two-year period between 1985 and 1986. A lot of workers, even professionals like engineers, were retrenched. But people did not take to the streets, urging the Government to make changes as the Thais have done in recent weeks.

The Fortune writer concedes that "(Dr) Mahathir is in a position to take his reckless gamble because after Singapore, Malaysia has Southeast Asia's strongest banks. Balance sheets are firm, non-performing loans are low, and the quality of banking supervision is at least a notch above the region norm".

Yet in a subsequent paragraph, the writer quotes analysts with Jardine Fleming in Singapore as reckoning "that non-performing loans as a share of all loans in Malaysia are going to quadruple and that in the end they could well be left with a higher share of bad debts relative to (the gross domestic product) than even Thailand".

Is his argument consistent or merely another instance of unfocused commentary?

Another point the writer makes to shore up his argument in that the country is taking a gamble is his criticism of the 1998 Budget. He says that it has not done enough and that it is only "mildly contractionary". Assess this view against that of the IMF managing director who said that he believed "the evaluation of the Budget has not really been fair and positive, especially when viewed together with the new measures".

The Fortune writer says that the Budget did not tighten credit; Camdessus said he saw merits in the Budget like limiting credit expansion. Which view has greater credibility?

Then he takes Dr Mahathir to task: "As for foreign investors, the Prime Minister seems more interested in demonising them than in courting them." Clearly, this is a gross distorting of what Dr Mahathir has been saying over the past four months. He only lambasted currency speculators, not genuine investors whom he repeatedly said were clearly welcome.

Finally, Rowher writes that "for his bet to succeed, (Dr) Mahathir is banking on four things: that the exports will rise, the consumer spending will rise, that the stock market will recover, and that the currency will stop falling".

He continues: "Some of the combination of these might mount a successful rescue. The export story is even plausible. One of the biggest garment makers in Malaysia (yes, it is foreign-owned) is so encouraged by the currency fall that it has already doubled its projected December output."

After making these concessions, he leapfrogs to the conclusion: "Yet overall, this economic strategy represents a wild throw of the dice." In other words, it is a huge gamble.

We will have to grant that fiscal measures are ultimately a gamble. But the point is whether the risks involved are well thought out and calculated or merely are "a wild throw of the dice".

Let us consider the four factors that the writer says the country is banking on sustained economic growth. First, exports will rise. It should be given the weaker ringgit. On this point, all analysts do agree but the benefit in terms of ringgit will not be as high as desired by our managers of the economy due to the fact that much of our exports have foreign components which will be more expensive and consequently eat into our export earnings. This is a fact we would have to live with.

It is probable that consumer spending would be sustained. But our planners would like to see the spending on local produce and products, less on imported goods.

As to the other two factors of the stock market recovering and the currency will stop falling, they depend on investors regaining confidence in the market and an end to speculating on the currency market.

Both will ultimately be determined by consumer perceptions and confidence in the sustained, though lower rate of economic growth. A seven per cent expansion of the economy, if it can be achieved and if consumers believe it can be achieved, is not a disaster. This is one basic consideration that the Fortune writer did not take into account. Therefore, his arguments, ultimately, are flawed.

When Mexico faced an economic crisis in 1994, Fortune published a few articles that Malaysia might go down simply because we have a large foreign debt. But unlike Mexico, our foreign debt went into constructive investments, not consumer spending.

Similarly, the argument presented by the latest Fortune article that our economy might go down like the Thai precedent is simply not cogent. Neither is it a credible forecast.

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