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Finding ways to boost the economy

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THIS year, Malaysians from all walks of life became unofficial economists, dissecting the reasons behind the decline of the Malaysian economy, offering suggestions to remedy the Asian economic and financial malaise.

Prime Minister Datuk Seri Dr Mahathir Mohamad largely blamed unscrupulous currency speculators and hedge fund traders for the crisis, a view which, though earlier scorned by many, is now slowly gaining acceptance.

The crisis began with the de facto devaluation of the Thai baht against the US dollar in July last year, which triggered a devastating domino effect across the region.

It put a stop to the charging Asian bulls, Malaysia's included, which have been registering enviable economic growth in the last decade.

After nine years of charting an average of eight per cent growth, Malaysia is expected to record a minus 6.8 per cent growth this year.

At the height of the crisis, the ringgit was devalued by currency traders by some 60 per cent against the US dollar, while the Kuala Lumpur Stock Exchange lost two-thirds of its capitalisation due to capital flight, as nervous foreign investors took their money out of the market.

The ringgit was fluctuating so much, between its highest level of RM2.49 in July last year, to its lowest of RM4.71 to the dollar on Sept 1 this year, that the Government decided to peg it at RM3.80 to US\$1.

The pegging enabled the business sector to better plan their business activities, especially those involving US dollars - which means almost everything, because business in the region and worldwide is conducted almost exclusively in this currency.

The pegging of the ringgit was part of the capital controls introduced in September to insulate the economy and the ringgit from external factors.

On the demand side, private consumption or consumer spending languished, as the public almost stopped spending - except on necessary items - for fear of the unknown future, as the economic slowdown showed no sign of recovery.

Vehicle and property sales, often seen as a benchmark barometer of a country's economy, declined significantly.

At the worst time of the year, sales went down by at least 60 per cent, with February recording the lowest volume of a meagre 6,872 units - the lowest monthly figure in nine years.

However, the Malaysian Motor Traders Association, in its latest statistics, noted that 19,081 vehicles were sold in November, compared to 14,232 in October and 12,883 the month before.

Much of the improvement was attributed to more relaxed hire-purchase guidelines and lower interest rates, as well as the return of investor confidence and spending power as a result of measures by the Government to get the economy moving.

As for property, to help kick-start sales of overhang or unsold property estimated to be worth billions of ringgit, a nationwide Home Ownership Campaign was launched early last month.

During the one-month campaign, incentives were given by participating parties - incentives such as discounts from developers, the waiving of certain fees by lawyers, and a flexibility in loan arrangements by banks.

The message is that the country needs the population to spend (albeit

wisely), because if there is no money circulating in the system - from buyers, to shops, to banks, back to shops, to buyers - the economy would not be moving.

One of the worst casualties of the economic downturn is business people. From the big KLSE-listed companies, to petty traders, everyone suffered a loss in their business, with some having to fold.

This year, one listed company after another reported losses, compared to profits the year before.

Blue chip companies with foreign operations or loans, such as Tenaga Nasional Bhd, Malaysia Airlines and Telekom Malaysia Bhd, reported losses largely attributed to forex losses resulting from the depreciation of the ringgit against most major currencies.

The only ones spared the agony were oil palm plantation companies, which were enjoying higher export prices because palm oil rates were quoted in US dollars.

Retrenchment became the norm this year, as a result of companies having to lay off workers after facing losses in business.

The exercise is usually accompanied by a golden handshake called the Voluntary Separation Scheme (VSS), a parting of the ways between a worker and his employer cushioned by monetary and non-monetary benefits.

In essence, the employer gives the departing worker a sum of money which, to a long-serving staff member with a minimal mortgage and free of children's higher education expenses, offers exciting prospects.

No final figure has yet been tabulated for the number of workers retrenched, but in July alone, a year after the Asian crisis started, 12,330 workers were retrenched.

However, the Human Resource Ministry has given an assurance that "the situation is under control". In September, for example, only about 6,000 workers were retrenched.

Not spared either were workers of financial institutions, offered the VSS by their employers following the mergers of the institutions. The country's 39 finance companies are now being merged into eight groups, to consolidate their operations and make them stronger to face the liberalisation or the opening up of the local financial sector in 2003, decided on under the World Trade Organisation agreement.

Industry sources said up to 30 per cent of the 100,000 employees in finance companies nationwide could be laid off as result of the mergers.

Judging by the success stories, the VSS was, to some, a blessing in disguise.

A textile company worker used the money to pay off the loans on his house and van, and start a small but thriving food business, while a bank worker used the money to finally realise her long-held ambition to further her studies.

Overall, after almost 18 months, the economic situation in the country and the world does not look about to recover any time soon. Still, we count our blessings when we compare our situation to those of our worst-hit neighbours.

These badly-affected neighbours - Indonesia, South Korea and Thailand - saw their governments having to ask for aid from the International Monetary Fund, as a last resort to bail out their economies.

Seven to eight million people have lost their jobs in Thailand, real wages in Indonesia have fallen by 40 to 60 per cent, and more than 20,000 South Korean companies closed shop in the first nine months of this year.

Some 25 million have been pushed back into poverty in the region, as the soaring prices of staple food have a disproportionate impact on the poor. As the World Bank points out, some countries have gone, in the space of a few short months, from robust growth to deep recession.

In Malaysia, we can still afford to put food on the table, spend a bit on a holiday at a local destination, celebrate the festive seasons moderately, and continue to do everything we can, in our own small way, to help the economy recover.

Malaysia's economic think-tank, the Malaysian Institute of Economic Research, has projected that the economy will register a positive 2.7 per cent growth in the year 2000, but a mere 0.7 per cent growth in 1999.

Not particularly rosy - but at least it is on the rise.

Multimedia Super Corridor International Advisory Panel member Kenichi Ohmae said Malaysia needs to do a better job of communicating to the world that its economic situation is manageable, and that the priority MSC project is on schedule.

Ohmae, concept developer of the MSC, said Malaysia must beef up its public relations activities in Japan - its traditional top three trading partner - focusing on matters not confined to the financial markets and Datuk Seri Anwar Ibrahim, but including the more positive aspects of Malaysia.

"Malaysia is doing much better than other countries hit by the crisis. It's a manageable situation. Every country goes through an economic crisis as it puts itself through the borderless world," he said.

It is this positive news that should be conveyed, he added - that Malaysia is making progress, despite the economic slowdown.

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