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Malaysian economy must go for a checkmate in slowdown

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IT is becoming too quiet for comfort. The currency attacks have abated for now.

According to the IMF, we have seen the worst and we will take a few years to recover fully. The Malaysian economy appears to have reached a stalemate.

However, it is not all dull news.

I will highlight a few bright spots in the gloom and then indicate what can be done to break the present stalemate and jump start the economy towards more rapid recovery.

Bright Spots

Firstly, the New International Financial Architecture mooted by the IMF at the G22 meeting of Finance Ministers in Washington on April 16 is a major breakthrough and a victory for Malaysia.

It will be recalled that the US initially rejected the idea of monetary reform at the last World Bank-IMF meeting in Hong Kong last year.

But, they have now seen the light and have jumped on the bandwagon of growing international consensus that was boldly initiated by our Prime Minister Datuk Seri Dr Mahathir Mohamad and followed through effectively by our Deputy Prime Minister Datuk Seri Anwar Ibrahim.

It's going to be exciting to watch what new international financial supervisory mechanisms actually unfold in the months ahead, and to see if there are going to be double standards.

Secondly, the big domestic bright spot in the economy is the gratifying improvement in Balance of Trade which gained a surplus of RM5.1 billion in the first two months this year.

The trade surpluses have been growing due to better export performance and a slowdown in our imports. This is mainly due to the decline in the exchange rate in the ringgit which makes our exports cheaper and our imports more expensive in foreign currencies. This favourable trend must continue.

It will be recalled that the weak Balance of Payments was the one major weak economic fundamental that attracted the vicious attacks of currency speculators and manipulators in July last year.

Now that the Balance of Payments is improving we should strive hard to build up our Foreign Exchange Reserves. The present reserves are sufficient to sustain about 3-4 months worth of retained imports. This is not adequate to discourage currency speculators from further attacks on our ringgit.

What we need to do is build our foreign exchange reserves to at least six months worth of retained imports.

It is, therefore, regrettable to learn that Bank Negara lost RM10.9 billion in foreign exchange in defending the ringgit in the last six months. This wipes out the hard-earned gains of RM5.1 billion in January and February this year.

We need to give greater priority to longer-term reforms in our economic and financial structures.

Bank Negara currency interventions are only short-term measures that cannot be sustained, as the loss of so many billions of ringgit has proven time and again.

It is this kind of short-term economic response that does not inspire confidence in our capacity to manage effectively on a sustained basis.

Jump Start Measures

Here I want to outline some short-term and urgent measures that could help build the confidence necessary to jump start a faster pace in our economic recovery as follows:

* Speed up the mergers of the commercial banks, stockbroking and insurance companies, to ensure a much stronger financial system, to provide a stronger base for economic recovery.

We should not be too soft in pushing the pace of mergers. We have to think of the majority interests. The RHB Bank-Sime Bank merger is therefore encouraging.

The non-performing loan ratio of 8.3 per cent could grow and we need stronger asset back-up if more companies go under.

It is good that Datuk Seri Anwar has said that public funds will not be used to rescue sinking companies. But it is hoped that badly run state-owned companies will not be injected with public funds either.

These state-owned companies should be made more business-like, market-oriented, and owned and managed by genuine entrepreneurs from the domestic and even foreign sectors for efficient management.

* Secondly, despite what the IMF with its standard-type prescriptions has to say, we must do what is best for our own economic environment.

Interest rates have been high long enough. We must gradually relax and lower the lending rates especially for the industries that earn foreign exchange or those industries that do not utilise much foreign exchange.

Manufacturing, low cost housing, tourism and essential infrastructure projects are areas where selectively lower interest rates can help sustain faster economic recovery, increase employment and yet strengthen the economic recovery.

Another RM1 billion for affordable housing is great - but I hope the scheme will be properly implemented.

* The declining rate of economic growth has to be countered.

Otherwise we can slide with further slowdown and even a recession. Now that the economy is more stable, we could provide more finance for the strategic "half completed development projects".

If local funds are difficult to come by, let us welcome foreign investment in these projects, without being unduly concerned with domestic ownership - at least for the time being.

Then we will see business activities and confidence recover substantially. We need more long term foreign capital - fast.

* We have to become more proactive, pre-emptive and less reactive in our economic management in order to build confidence.

Open burning has been rampant in our country for so long. But we put the blame on others when we were living in glass houses and should not have thrown stones. Now, suddenly, we are reacting by taking tough policy decisions.

The present water crisis was anticipated long ago. How can a tropical country blessed with abundant rainfall, have to ration water?

Again we blame El Nino for some of our own weaknesses. Then, what about the sewerage problems we face with Indah Water Konsortium, and the serious problems of garbage collection! There is growing disillusionment among our people!

We also better make sure charity begins at home and that we will have abundant water supplies, before we undertake promises to supply water to Singapore.

I am sure we can achieve both objectives easily if we treat water as an essential commodity and a potentially vital export. If necessary, let us invite Singapore capital to be invested in our water resources for mutual gain - if we can't do it ourselves!

There is a significant number of Malaysians who feel sad and `sakit hati' that our country - which is so blessed with its rich and beautiful natural resources, our exciting multi-cultural society, and freedom from natural calamities - should have to go through such difficult times.

Our people sigh - Poor Malaysia! Kesian Malaysia!

* The NEAC has achieved much in having held over 150 meetings with a wide cross-section of our society, to obtain their views on how to improve the economy.

There must have been many worthy proposals to expedite our economic recovery. But, so far, the NEAC has not come out with an overall package as our panacea for our socio-economic problems.

I would therefore, urge the NEAC to introduce its Policy Package as soon as possible to enhance confidence and to break the stalemate, to speed up our economic recovery. We need to move fast or we will decline further!

Investors Confidence

It is ominous that the claim by our DPM that "the worst is over for Malaysia's economic troubles" had a cool reception in New York.

The chairman of Morgan Stanley Asset Management, Barton Biggs, responded that our DPM's assurance was "very interesting". To me his response was deadpan and somewhat dismissive especially when he added that "he will go back and think about it"!

Richard Price of College Retirement Equities Fund said: "You are only human. You mess up, you hit a rough spot you pull together and you come out of it".

He said he got out because of the drop in share prices, water problems, haze and difficulties in funding working capital.

So, all these mean that these huge fund managers are still not confident in Malaysia's capacity to recover soon.

If we take more than a year to recover, even some of our better companies will begin to slide and approach collapse. This will be untenable.

Is Government Listening?

The public have expressed themselves in so many ways time and again on what they think should be done to hasten our economic recovery.

The questions arise as to why not enough is being done and whether the authorities are adequately listening to the people?

It will be a real pity if the powers-that-be become more preoccupied with their own interests and give less priority to the genuine concerns, and the ideas and aspirations of the rakyat and their crying needs.

What many of us write about hopefully gives the authorities the honest feedback that is essential for any government to use to govern effectively for the benefit of the society.

I have received several letters from the public on my monthly column. They assure me that I am basically on the right track.

I would welcome more comments and criticism to ensure that my articles accurately articulate the aspirations of all sections of our Malaysian society.

Conclusion

Unless we introduce some of these and other measures with priority and urgency, we may attain a stalemate in our economic recovery instead of a checkmate to our slowdown and even to a possible recession! We must recover fast.

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