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Right strategy needed to avoid recession

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AS we congratulate our King on his birthday today and recall with pride our country's many achievements, we are also filled with anxiety.

Everyone wants to know when the Malaysian economy will really recover. I had earlier thought that we would be moving away from the economic slowdown by the end of 1998.

This expectation was based on the understanding that we would take tougher action to counter the economic slide. But obviously we have not done enough - especially from the foreign investors' point of view.

That is why the ringgit and the Stock Market continue to be weak, and we are now even experiencing negative growth rates. Confidence is still low. Why is this so?

Continuing Concerns

Since the major fiscal and monetary measures introduced in March, there has been no new major package of reforms.

On the contrary, there continues to be more misgivings. Several companies have already gone under and many more could follow.

There are growing concerns that the authorities may want to rescue some companies and individuals, even at the expense of sensitive minority interests.

The Malaysian Airlines financial controversy provides a case in point. Minority shareholders feel left out and let down. Foreign minority shareholders, especially, lose confidence and then pull out and keep away from investing in Malaysia.

Furthermore, there is growing concern over the state of our banking system.

The non-performing loans could go up substantially if more companies collapse and thus fail to settle their bank loans. Then even some strong banks can be weakened.

The NPLs are now already about 10 per cent. But there are fears that they could rise to 15 per cent or more.

Most analysts are, therefore, waiting till the end of June to get a clearer picture of the health of our corporate sector. This will throw more light on the viability of our financial system.

By July, all companies will have published their balance sheets as required by the Registrar of Companies, and then we will see many corporate casualties.

Bailouts and bank weaknesses are two serious concerns of foreign financial analysts. They are the ones who determine the amount of foreign capital flowing into Malaysia, and influence the pace of our recovery.

The change in leadership in Indonesia could bring greater financial stability and better prospects to Asia in the medium term. This is the most encouraging regional development. But then again, the continuing uncertainty in Indonesia is a major worry for the immediate future.

What can we do?

The Prime Minister, Datuk Seri Dr Mahathir Mohamad made one of his most important speeches recently when he said: "Our weaknesses are due to our culture, which does not really stress hard work, seeking knowledge, moderation in life, adopting good values and other things."

It is, therefore, crucial that we change to cope with those internal and external challenges facing us.

Since Malaysia is an open economy, we have to take into account

foreigners' perceptions of us and make the necessary adjustments as far as possible.

If we don't, we will have to face the consequences of slow inflow of both equity capital and foreign direct investments.

We cannot recover fast enough and sustain strong economic growth without adequate foreign investment. Our balance of payment is weak, our reserves are low and now our Budget is under severe strain.

So we have to do more to overcome the concerns of foreign investors in order to attract more long-term investment. We have limited choices. That is why the establishment of the Asset Management Company can provide a breakthrough to faster economic recovery.

But it must operate professionally and without political persuasion. Then foreign investors will come back and our credit crunch will ease and interest rates could come down.

But we have to be careful not to borrow too much as we will have to pay the price later!

Foreign Expectations

But what are the expectations of foreign investors?

Basically, they want our markets to be made available to them on the basis of "national treatment."

Foreign investors want to have the same rights and privileges to do business in Malaysia as if they are Malaysians.

Indeed, the current discussions at the Organisation for Economic Co-operation and Development (made up of the most developed and rich countries), aim to establish the Multilateral Investment Agreement.

This draft agreement seeks National Status for all rich and poor countries alike.

According to the MIA, all government licences, permits, land alienation, investment and government contracts must be made equally available to foreigners.

This aim is to be pursued at the World Trade Organisation meetings. Understandably, there has been resistance from developing countries against the takeover and economic domination by the rich countries.

Nevertheless, the International Monetary Fund has managed to insist on national treatment as its conditions for providing financial aid to Korea, Indonesia and Thailand.

Thus, the WTO has succeeded in using the IMF as its tool to achieve its aims.

The fact that we have resisted IMF interference so far is obnoxious to them. They want to know why they should not be able to globalise some of our banks and financial institutions and then control our economy.

I believe that many powerful vested interests in rich industrial countries will continue to discredit us through the media and the giant investment funds that they own, as long as they are not allowed to take over our banks and other critical financial institutions and businesses.

What then should be our immediate strategy?

1. We should continue to resist the IMF to prevent its kind of bungling especially in Indonesia and Korea. The IMF chief Michel Camdessus says we should not blame the doctor but the patient for neglecting to take the proper medicine.

However, he must concede that the IMF doctors could have given the wrong medicine in the first place and thus deliberately worsened the patient's illness!

It is easier then for powerful countries to take advantage of weak economies. That has happened in Korea, Thailand and Indonesia and every developing country that the IMF has dealt with.

2. However, regardless of the hidden agendas of others, we in Malaysia

must take further urgent steps to reform in our own interests.

If we don't we will inadvertently play into the hands of those who have sinister agendas of their own. Then we will be forced to go to the IMF to bail us out (even if we are prepared to be poor), because international pressure and our own economic survival will push us to go to the IMF.

We should, therefore, reform the National Development Policy and liberalise the Foreign Investment Guidelines, immediately to make Malaysia more competitive and resistant to the IMF agenda.

3. There is now a new emerging threat to our economic stability and recovery and this is the weakening Federal Government's Budget.

We cannot allow the Budget to deteriorate to a deficit.

Although the Budget's revenues will decline dramatically because of the economic slowdown, we have to make sure we keep tight control over its operating expenditures.

We have to bite the bullet even if it means cutting down on social expenditures, although this will be unfortunate.

Perhaps the defence expenditures should be further sacrificed for the sake of agriculture, education and health services.

4. We should also not borrow too much to cover our projected overall Budget deficits. More so, we should not borrow to cover any deficits in the Budget's current account.

If we do this, then it means that we are borrowing to pay the salaries of our civil servants. That will be imprudent, as it will be inflationary. Similarly, it will also be undesirable to borrow to finance the new Asset Management Company.

It is gratifying that our civil servants and labour unions have shown much maturity and patience in restraining demands for wage increases. Can you imagine the economic damage if our workers were militant, like those in some other countries?

In the end, we must aim for at least a balanced budget, on our current account.

5. We have to ensure that we refrain from policies and practices that will undermine confidence in our capacity to manage effectively.

The rescue of corporations must be undertaken with greater care and savvy. We will have to give much more attention to improving the quality of our management both in public and private sector.

We have to respond effectively to the allegations of cronyism, corruption and inadequate transparency in order to build confidence.

Conclusion

We are in a tight situation with few choices and limited time. We have to choose the right strategy and act with greater urgency, or face a possible recession.

At this time, it would appear that we are choosing economic strategies which will not ensure early economic recovery.

Unless the new National Economic Action Council Package contains some significant and urgent policy proposals, we may take two years to move out of a possible recession towards economic recovery.

We should, therefore, waste no time in taking more courageous decisions to establish a greater sense of unity and set a purposeful direction in managing the economic slowdown.

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