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Daim: Time for unity of purpose (HL)

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THE general thrust of the various policy measures adopted by the Government recently is to stabilise the exchange rate, build business confidence and attract foreign direct investments, Tun Daim Zainuddin says.

Daim, who is Special Functions Minister in the Prime Minister's Department, said the results of these measures however may not be felt immediately since monetary and exchange rate policies often take six to 18 months to bear fruit.

"Malaysia's macroeconomic prospect for 1998 and beyond is also dependent on external factors, such as the health of the all important Japanese economy," he said in his speech at a two-day seminar on "The Economic Crisis in Malaysia and the Role of the Media" yesterday.

His speech was read by Deputy Minister in the Prime Minister's Department Datuk Dr Ibrahim Saad.

"Now is the time for unity of purpose - all else will have to take a secondary place in the interest of the nation.

"Our policies will be balanced taking into account the twin necessities of both a stable exchange rate and reviving growth. And we aim to be consistent in our objective.

"We certainly hope to prove our critics wrong," he added.

While there is still considerable uncertainty about the depth and duration of the financial crisis, the severity of Malaysia's economic problem can be made considerably worse if there is irrational pessimism about the future which can prove to be self-fulfilling, Daim said.

It can lead to the vicious cycle of capital outflows, and in turn to further currency depreciation and fall in share prices, putting insurmountable pressure of the private sector and undermining the real economy.

"Whatever name we choose to call it, Malaysia will then be forced to lose its sovereign right to economic and political self-determination. We must avoid this at all costs."

Daim said if truth be told, Malaysia remains a fundamentally attractive place to do business and is still a resource-rich country.

The economic "crisis" in Malaysia, he added, is "rather a crisis of confidence.

"It was brought to Malaysia by the contagion effect characterised by investors' nervousness which resulted in a sudden withdrawal of foreign short-term funds leading to a gross under-valuation of our exchange rate," Daim said.

He also said that Malaysia's ideas or alternatives for a way out of the economic crisis may not always be correct but they should be given fair hearing and in-depth critical assessment instead of being brushed off as voodoo economics.

Daim, who is also the Economic Adviser to the Government and executive director of the National Economic Action Council, stressed that Prime Minister Datuk Seri Dr Mahathir Mohamad's stewardship of the national economy must be accepted without any further speculation.

When Dr Mahathir blamed the crisis on currency speculators and suggested controls, his was a lone voice in the wilderness, Daim noted.

Now, the Prime Minister's clarion call is echoed from the capitals of the G-24 countries and, more recently, Australia and Hong Kong, to the

hallowed halls of American Academe.

"Federal Reserve Chairman Alan Greenspan now acknowledges some controls must be in place to prevent a recurrence. Even George Soros, it seems, agrees.

"But still, when Dr Mahathir suggests any new solutions to the crisis that are counter to the conventional but failed International Monetary Fund (IMF) formula, his views are still considered heretical," he said.

The IMF has "failed and failed miserably" in handling the Asian economic crisis in the past 12 months, Daim said, adding that there is already a growing consensus among the affected countries that a reversal of policies is needed.

"Even the IMF has conceded as much by permitting some borrowing countries to run a budget deficit to spur growth. And yet, the IMF's discredited stance remains the only standard upon which all other alternatives are judged."