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Way to help the poor, business is by stimulating economic recovery

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AT the recent Umno General Assembly, a suggestion was made that the Government provide a social safety net to the lower income group.

Prime Minister and Umno president Datuk Seri Dr Mahathir Mohamad recently assured Malaysians that "no one will be neglected or their problems glossed over by the Government during these difficult economic times."

This is a fine statement of Government policy in handling the crisis. It is particularly reassuring to the rakyat that he or she will not be forgotten, despite the attention given to help the corporate sector.

Those non-Bumiputeras who sometimes feel that they are relatively neglected by the Government will also be encouraged.

It has to be constantly remembered that corporate leaders and big businesses are not the only or even the main source of economic strength. It is the humble men and women from all walks of life who form the backbone of the economy and should not be taken for granted. Without their understanding and support our economy will stagnate and collapse.

But our fiscal and monetary policies appear to be designed to help mainly the big corporations fight the impending recession. For this reason alone, Dr Mahathir's assurance is gratifying as obviously much more must be done for the rakyat as they are already badly affected. They will be suffering even more from the worsening economic situation.

Retrenchment, unemployment, inflation and inability to meet basic needs will hit the poor harder than the rich. That is why the poor have to be given higher priority.

What can be done to help the poor?

The fact is that the country's resources are depleted and there are serious constraints to helping the poor.

The banks are facing a liquidity crunch partially because of large capital outflows and the need to tighten monetary policy. Thus, interest rates are high, and businesses find it difficult to service their outstanding loans. They can't borrow enough to meet their needs. Their loans are being withdrawn, sometimes quite ruthlessly by financial institutions. Many companies are facing foreclosure by the banks.

It's ironic that RM2.5 billion in loans is available to small-sized industries and for food production, but this has not been fully utilised.

Surely something can be done to help overcome this serious problem?

Most entrepreneurs, especially new Bumiputera businessmen, are suffering from the tight monetary policy. The growing cry is to lower interest rates so as to reduce the debt burden of these companies. If these companies are saved then the economy can recover faster.

Monetary Policy

But to relax monetary policy too much and too soon can also be damaging.

Lowering interest rates too drastically, raising the lending limits to individual borrowers, and generally encouraging the growth of liquidity can have the following adverse implications on the economy:

- * Confidence in the economy can be worsened. Foreign analysts and investors, especially those influenced by the IMF, may get the impression that we have lost our grip in steering the economy out of a possible recession.

- * The ringgit could depreciate further, despite the present strengthening of the balance of payments. The financial analysts and

speculators will bet on the ringgit weakening further. All this could invite further attacks on the ringgit and cause the ringgit to be even more unstable.

* Lower interest rates, more liquidity and a weaker ringgit could put even more pressure on the worsening inflationary situation.

In the end the poor will suffer most from rising prices, especially for food and other basic items.

Thus, if there are serious limitations in using monetary policies to help the poor and the economy to recover, where can we go for help?

Budget

Can the Budget help the poor? The Budget has been very healthy in the last few years, but there are growing signs that the 1998 Budget is now facing serious strains.

Revenues have been falling due to lower tax collections from the corporate sector.

There is no way to check this slowdown in revenue collection. Any increase in corporate tax or import duty can be counter-productive, as economic activities would be further dampened.

The Budget expenditures would need to be further reduced to match the decline in revenues, to achieve a surplus on the Budget's current account. But this choice is now almost impossible.

The 18 per cent cut in Budget expenditure imposed by the Minister of Finance in March this year was quite severe. It will be very difficult to further cut expenditure allocations, especially for social services like education and health, and economic sectors like agriculture and the financial assistance given to the small- and medium-sized businesses. Even poverty-eradication programmes have already suffered from expenditure cutbacks.

So declining revenues and the impossibility of further expenditure cutbacks will not generate enough surplus to increase investment in order to counter the economic slowdown.

But there is one way out. Malaysia could borrow more to assist the businessmen and the poor who have been adversely affected by the economic slowdown.

Borrowing

It is argued that since Malaysia's external debt servicing is still relatively low at around six per cent of export earnings and since domestic debt servicing is only about 12 per cent of the Budget expenditure, we can safely borrow more.

This argument is acceptable, but is also fraught with weakness and concerns such as the following:

* More borrowing would be the easy way out. But it is the softest option. Therefore, we should be careful not to be seen as wanting to borrow ourselves out of a possible recession.

* There are also severe limits to our borrowing. The more we borrow from abroad, the more indebted and even beholden we will be to the foreign lenders and foreign interests.

* Unless foreign borrowing is linked to specific projects, such as required by World Bank loans, there is a danger that general foreign market borrowing could be used to finance low priority projects and programmes which are not viable. Thus, the ability to repay such loans will become questionable.

Domestic borrowing by the Government through Government securities and even bonds will also raise the debt burden. However, this is acceptable particularly if the loans are meant to promote economic growth. The additional RM7 billion for development and RM5 billion for critical infrastructure projects are thus most welcome. Mild reflation is now

necessary.

But if we raise our debt to finance the Asset Management Company, then there is minimal promotion of economic growth and income distribution, although it will help strengthen the banking system and the corporate sector.

The poor will still not benefit, unless this new domestic borrowing is used to promote small-scale agriculture and small- and medium-sized businesses.

What the AMC will be doing is nevertheless useful. The AMC will be buying good assets pledged to the banks and helping to turn around weak companies to make them and their assets more productive and profitable.

Foreign Capital

However, given these monetary and budgetary limitations, the best boost to the economy is from the inflow of new long-term foreign capital that could buy the bank assets taken over by the AMC.

The challenge to the AMC then would be to bring in foreign capital that can work with Malaysian capital, to own and operate Malaysians companies much more efficiently and with more transparency and merit as the basis for good governance.

We need to bring in more foreign capital and technological and management competence to carefully selected areas of our economy. This is the best way in the short term to quickly improve the quality and competitiveness of our business culture and aid economic recovery.

I would suggest that the foreign investors be given over 51 per cent ownership and that about 30 per cent be reserved for Bumiputerras, while the remainder could be kept for non-Bumiputeras, at least for all investors who invest in the next five years. After all, the Umno General Assembly also encouraged long-term foreign investment in selected areas, including finance!

Conclusion

We can help the poor and the business community as well only if we stimulate economic recovery rapidly. This can be done through a package of attracting more foreign investment and some limited borrowing and gradually lowering interest rates.

Now that the CEO of the NEAC Tun Daim is in the Cabinet, it is hoped that there will be more comprehensive and concerted policies to prevent a recession. We have high expectations for significant policy initiatives.

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