

'Activities of currency traders and stock market raiders PM: Be prepared fo

23 JAN 1999

By Ashraf Abdullah

KUALA LUMPUR, Fri. — Prime Minister Datuk Seri Dr Mahathir Mohamad said today Malaysia must be prepared for a worldwide deflation, although there were those who felt that it would not take place.

"We must be prepared for a possible worldwide deflation. They say it will not happen. But they have been wrong many times before. And they can be wrong again," he said, adding that Malaysia had so far managed its economy well.

He said since there was a high possibility of a worldwide depression in the future, Malaysia must insure itself against it.

He was speaking at the American International Assurance 50th anniversary dinner and launching of its 50th anniversary logo at the Shangri-La Hotel.

Among those present were American International Group chairman Maurice R. Greenberg and AIA's senior vice-president and general manager Edward Bush. AIA is a member company of AIG, one of the biggest insurance underwriters in the United States. It operates in 130 countries and jurisdictions.

Dr Mahathir said, however, if the expected deflation did not take place, there would certainly be other challenges, including globalisation.

He said the activities of currency traders and stock market raiders had destroyed economies which were once described as miracle economies due to their high growth and wealth creation.

"The allegation is that the growth was unhealthy, based on bad practices and should be destroyed in order to enable a clean-up to take place.

"Phoenix, it seems, would rise from the ashes," he said, adding that whatever profits made by the currency traders and market raiders were considered incidental.

Dr Mahathir said Malay-

sia was not taken in by these destructive do-gooders.

"We recognise them for what they are. We know that they are powerful and they are backed by even more powerful forces.

"We know that behind all this is pure greed that cares nothing for the well-being of others," he said.

But Malaysia, he said, believed that in the process of destroying others, they would do the same to themselves.

"When business people care nothing for their clients, when they destroy their clients, they must eventually lose their source of income. It is a simple fact that the destruction of your market will destroy you," he said.

He added that the effect of the destruction was being seen today.

Dr Mahathir also said Malaysia would need more time to deal with globalisation and liberalisation if

□ **DR MAHATHIR
PRAISES AIA: P17**

multinational mergers and acquisitions that came with them were heading towards world invasion, monopolies and economic hegemony.

"If they are and it looks as if they are, we cannot halt them. We must appeal for time. Please don't use the IMF (International Monetary Fund) to prise open our markets to pick up things on the cheap," he said.

Dr Mahathir said Malaysia welcomed globalisation, deregulation, liberalisation and borderlessness, but it had to get a clearer picture of what they were all about.

He added that Malaysia should not be accused of cronyism if it tried to protect its people from these predatory giants.

"It is our right to defend ourselves and our independence. We did not fight for independence only to be

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PM: Rich to take advantage of globalisation

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trampled under and made worker bees to foreign queens," he said.

Dr Mahathir said at the moment, Malaysia was not ready to handle the problems that globalisation might create.

"We have had a foretaste of globalisation when capital was pulled out from our country and our currency was devalued.

"We did not anticipate that and we were therefore unprepared to deal with these abuses of the free flow of capital," he said.

Dr Mahathir added that, however, Malaysia was fortunate in being able to contain these activities eventually.

He said at the moment preparations were being made by the rich in order to take advantage of globalisation.

"Huge banks, industries and utilities are being formed through mergers and acquisitions. Each one of these is bigger than most of the developing countries.

"Each can literally swallow up these countries. There is no doubt that their intention is to monopolise the field that they are in," he said.

Dr Mahathir said at the moment, the trend could still be fought.

"Globalisation can be good if regulated, just as capital flows can be good if regulated. We should welcome globalisation, but we must ensure that it will not be open to abuses," he said.

Indicators for rising optimism on recovery

23 JAN 1999

ECONOMY

By Zainal Aznam Yusof

A FRESH year raises hopes and expectations that the financial crisis will peter out and that the economy would be on the road for recovery in 1999. There are indicators which provides some grounds for rising optimism that things are beginning to pick up.

Some private analysts are even venturing to revise their estimates for growth to move in the positive region this year.

Nevertheless, in some other parts of the global and domestic economy there are still worrisome signs that could dampen growth. A growth rate of close to two per cent for 1999 could be within reach.

The global economic outlook appeared to be perking up until the Brazilian financial crisis cast a heavy pall in the New Year, in the second week of January (Jan 14).

Interest rates were lowered in the US as the threat of further dampening of US growth looks real. The lowering of interest rates by the 11 central banks last month raised expectations that growth could be spurred in these economies and would bring some cheer and respite to the Asian economies.

Brazil's recent devaluation of the real by about eight per cent and the widening of the real trading band to 1.21-13.2 proved to be unsustainable as the Central Bank floated the real on Jan 15, 1999 and immediately the real plummeted by a further 15 per cent to 1.55 reals to the greenback.

About US\$1 billion (RM3.8 billion) per day of short-term capital took flight from Brazil over the crisis week, eating badly into Brazil's slim external reserves. So far, the US\$41

recovery of the Asian economies. As long as the Asian economies are perking up, Malaysia's economic recovery will also gain momentum.

As we begin 1999 there are some signs that the economy is recovering although the picking up of economic activities looks still patchy. The combined effects of capital controls, fiscal stimulus and the easing of monetary policy are beginning to take effect. The balance of payments is strengthening. A trade surplus of about RM51.5 billion has been registered and this has surpassed the earlier Budget 1999's estimated surplus of RM35 billion. By the second half of 1998, a current account surplus of about RM15 billion has been booked so that the estimated RM20 billion current account surplus for 1998 will also be surpassed.

Bank Negara's external reserves have strengthened and by end-December 1998 it reached about RM99.4 billion, sufficient to finance about five months of retained imports, the reserves target that had been set by the National Economic Recovery Plan. There is a good likelihood of better reserves in 1999. As revaluation gains account for a significant part of the increasing reserves we need to get real export volume to grow in 1999, and beyond, which will provide a stronger foundation for the reserves.

The employment situation is not worsening and the number of retrenched workers has eased to about 7,000 in October, compared with the peak of 12,300 in July 1998. Investment approvals in manufacturing in 3Q 1998 reached about RM6.6 billion (2Q 4 billion), with RM4.7 billion in Sep-

tember of foreign approvals compared with RM350 million during the June-August period.

As always the next unfolding saga of the Brazilian crisis remains uncertain but rightly the key concern is its effects on other economies, including Malaysia. Latin American countries are bracing for the contagion to spread with Argentina looking good as the likely victim but the other economies are vulnerable too.

The US, because of its physical proximity and the exposure of US banks, and corporations in Brazil, have good grounds for having bigger worries. The crisis could shave a fraction of a percentage of the growth of the US economy, and indirectly, on world growth. So far, the expected bad impact on emerging markets have not been fully fulfilled and, surprisingly, last week there were mixed outcomes. Japan's and Bangkok stock markets shrugged off the Brazilian contagion and moved fractionally higher. Other bourses took mild beatings and their indices closed lower. So far, the dire predictions for emerging markets have not taken place although the jitters are very much alive.

The direct impact of the Brazilian crisis on Malaysia will be minimal as trading and investment links are small. Malaysia's capital controls will provide the shield and shelter and the crisis will be short-circuited because of the 12-month holding period for portfolio capital outflows, or repatriation.

Another additional dose of uncertainty has come from the strengthening of the yen vis-a-vis the US dollars which has depreciated by about 25 per cent since August 1998. A strengthening yen could erode Japan's competitiveness, reducing its export growth and slowing its recovery. A recovering and stronger Japan would be good for Asia and Malaysia. US dollars are being sold off for yen and the euro is also attracting funds away from the greenback.

Prior to the Brazilian crisis and the yen strengthening, there has been stronger optimism that the Asian economies have bottomed out. While the impact of these developments remain somewhat uncertain, it is unlikely that they would seriously derail the

tember of foreign approvals compared with RM350 million during the June-August period.

Consumer confidence looks like perking up. Sales of motor vehicles rose to 19,081 units in November compared with 14,232 units in October and 12,883 units in September, 1998. Sales of residential properties worth about RM3.8 billion were made under the recent Home Ownership Campaign. The KLSE Composite Index has breached the 600-point level and is hovering a shade below that compared with 260 points a few months ago.

Progress is being made in repairing the damages inflicted on the financial system. Danaharta and Danamodal have begun to acquire the non-performing loans of the Phase I banks — the weaker ones that require recapitalisation. Agreements with 11 financial institutions to acquire their NPLs and for recapitalisation were signed with Danaharta and Danamodal in November 1998. By November, RM21.8 billion of NPLs have been committed to Danaharta.

Some worries need to be flagged. The overall Industrial Production Index dropped by 11.5 per cent in November 1998 on a year-on-year basis and by 4.7 per cent in November for the October level. Manufacturing industries will play a key part in speeding up economic recovery. But by the fourth quarter of 1998 it still looks subdued.

Banks loan growth at the end of 1998 grew only by about two per cent, well below the desired target of eight per cent. The downward trend in bank loans will have to be arrested if it is not to slow down the financing of private investment which is essential for growth. Public investment performance in 1998 is also worrying if it is to be carried over into 1999. Overall, it has been noted that there was a shortfall of about 20-25 per cent of development expenditure — i.e. about a fifth or a quarter of the financial resources were not spent on projects. As the recovery will be led much more by public investment, further shortfalls will put a drag on it. As has been repeated, super speed implementation of development projects will be crucial in 1999. Finally, shoulders must be put to the wheel, mind to the task and heart in the right place.