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Be on guard against changing tunes of foreign Press, analysts

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MOST Malaysians are upbeat about the economic recovery that is under way.

The increasing positive reports from foreign analysts and the enhanced domestic economic and stock market performance have strengthened our confidence in the economic recovery.

However, we have to guard against the changing tunes of the foreign mass media and financial analysts. We have to counter their agenda by fortifying our economic strength and recovery.

When the economic and financial crisis hit Asia in mid-1997, most Western critics were quick to point out that it was due to Asia's mistakes.

They said Asian economies were weakened by corruption and cronyism. That was the tune of the day.

Then the Long-Term Capital Management fiasco occurred in the United States itself. It had to be bailed out by a whole lot of American financial cronies on the advice of the US Federal Reserve chairman Alan Greenspan. The Americans then became embarrassed and softened their criticism and cynical view of Asian bailouts.

But the foreign analysts still persisted in attributing massive corruption as the cause of the Asian economic crisis. Then the whole Commission of the European Union resigned en bloc over charges of widespread corruption.

That further muffled their criticism of Asian corruption for some time.

All the while, however, the highly disruptive effect of unregulated volatile short-term capital or hot money was hardly mentioned as the most important cause of the Asian currency and economic crisis. This reflects their double standard and distorted sense of justice and fair play.

But now they are playing a second time. The rich industrial countries now want the developing countries to open up their economies even more, so as to maintain and raise their high and wasteful standard of living.

The new war cry now is to have a new round of World Trade Organisation negotiations. They want to get more concessions from developing countries to reduce tariffs and other protective policies, in order that the industrial countries can penetrate deeper into the markets of developing countries, and dominate their economies.

Hence, European Union's Trade Commissioner Sir Leon Brittan has suddenly become positive about Asia. The earlier negative criticism is replaced with confidence that Asian economies will bounce back. The recovery, it is argued, will be accelerated only if Asian economies "liberalise at a faster pace" through the acceptance of a proposed new round of negotiations in the World Trade Organisation.

The European Union argues that the recent economic crisis should not "lead to the abandonment of policies that served well in the past".

It is obviously referring to the policies of liberalisation in trade and finance. But what about the extensive liberalisation that took place in Asia in particular, in the financial institution and service sectors? After all, it is this extensive Asian liberalisation in trade and finance that caused massive inflows and sudden outflows of volatile hot money, that severely damaged the currencies, stock markets and economies of Asia, Brazil and Russia, and other economies in the Third World.

But most Western Governments and economists still do not admit that their hot money and hedge funds caused the crisis. They cover their guilt

by blaming others of corruption and even human rights violations.

Now, there is a third new tune being played. American economist Fred Bergsten has even warned that developing countries must rapidly liberalise and open their markets to the US and other industrialised countries. Otherwise, the US would itself close its markets to the developing world! If this is not intimidation and blackmail then what is it? These are the bullying tactics that the world resents.

The same song is being sung, as if through conspiracy, by the World Bank and the IMF. The World Bank Conference in Bangkok in April 1999 stressed the need for greater corporate restructuring to hasten the Asian economic recovery.

But the World Bank and the IMF play down the vital need to expedite international financial reforms. Instead, the IMF still tries to justify its destructive policies.

What is the use of undertaking domestic economic reforms if international short-term capital from rich countries can undermine almost overnight all the constructive policies and corporate restructuring that may be adopted by developing countries?

In fact, it's the World Bank and especially the IMF that must be restructured first. If the IMF were a corporation, managing director Michel Camdessus would have been forced to resign for the failures of the IMF in Asia, Russia and Brazil.

However, we can't afford to wait till some industrialised countries change their tunes further for our benefit. They won't, unless it affects their own interests. We have to get on with our own endeavours to sustain our economic recovery regardless of some Western opposition. Thus, the mid-term review of the Seventh Malaysia Plan is helpful and welcome at this time.

The review very professionally assessed the achievements of 1996-1998 and reviewed the economic prospects for the Plan's remaining year 1999-2000.

The assessment of overall performance shows that instead of achieving the original target of eight per cent yearly growth for the whole plan, we will probably attain only three per cent growth per annum. This is mainly because of the economic crisis that hit Malaysia causing the growth rate to slump to minus 6.7 per cent in 1998.

But even the three per cent growth estimated for 1999-2000 may not be achieved as it envisages a growth of one per cent in 1999 and a high five per cent in 2000! We cannot take rapid recovery for granted.

The main engine of growth is to be provided by the public sector and not the private sector. This is a reversal of past policies because the private sector has lost its nerve and its steam after the crisis. The private sector must show that it can be more innovative and efficient.

The private sector, however, will gain from the massive increase in the Government's financial allocations of RM22 billion over the original amount of RM67.5 billion, for development projects.

But if the Government's implementation capacity cannot move fast enough, the private sector too will be unable to utilise these additional resources for the building of new infrastructure in agriculture, transport, housing, etc.

Although the review is well written and presented, there is nothing new in terms of policy directions. It mainly refines old policies and hopefully adopts more proactive implementation. It would have been better, however, if there were more policy changes to speed up economic recovery.

The Government's administrative and implementation policies and procedures must be changed fast, otherwise there will be large shortfalls in the expenditure of these huge allocation of funds. Then the growth rate

of five per cent estimated for 2000 will not be attained and the overall growth target of three per cent for the whole Seventh Plan will be missed by a long shot. But the urgency in administrative reforms seems to be lacking.

However, we cannot depend on the Government alone. Another way to speed up economic recovery and achieve the mid-term review targets would be to further attract foreign direct investments. Increased inflow of genuine short-term investment in the stock market will also help to spur corporate expansion and economic growth, although we must continue to resist the inflow of disruptive hot volatile money.

But for this to happen, the Government has to further relax the selective capital controls introduced on Sept 1 last year.

We need not go back immediately to the status quo before the currency crisis hit us in 1997, but we can gradually move to the pre-1997 crisis, as early as possible, but with definite safeguards against attacks from hedge funds.

After all, international reforms are already under way. The rich industrial countries may not be moving as fast as they need to or as quickly as we want. But they have come a long way since Prime Minister Datuk Seri Dr Mahathir Mohamad first called for financial reforms at the World Bank annual meeting in Hong Kong in 1997.

Thus, this is the time to relax more of our selective exchange controls in the next few months. The weak ringgit could also be strengthened to within a band of RM3.50 to 3.80 to one US dollar. The sooner the better, in order to attract more foreign investment, especially long-term capital.

But the real challenge for the Malaysian economy will be in the more sensitive policy areas.

How do we further adjust the fine balance between striving for more efficiency and higher productivity and at the same time achieving the goals of the National Development Policy, as proposed by the mid-term review?

The review aims to "address falling productivity, low capital efficiency and inflationary pressures, while new sources of growth will be identified".

How are these objectives to be achieved if we are not able at the same time to open the economy to more competition within our country? Unless we relax the measures taken to protect the economy, we cannot expect to raise our levels of competition and efficiency in the short term of the Seventh or even Eighth Malaysia Plan.

We will also have to open up our economy at a faster pace to international competition, at least during the Eighth Malaysia Plan 2001-2005, if Malaysia is to become even more productive and efficient.

Saturday was Workers' Day and it was appropriate that our unions rededicated themselves to achieving higher standards of productivity, so that we can compete more effectively in the challenging times ahead.

It is also proposed that it may not be necessary to produce such detailed mid-term review in future. The time and resources invested in its preparation could be used for other priority areas of policy formulation.

Instead, a shorter review in the form of a White Paper could be presented to Parliament.

We are definitely on the road to economic recovery. But we have to be vigilant and counter negative foreign views and our own lapses in implementing the mid-term review investment programme.

We also have to attract more genuine foreign investment, and gradually relax some of our restrictive economic policies, in order to drive faster towards full economic recovery.

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