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Convincing investors that all's well with the economy

Hardev Kaur in London

LONDON: Datuk Seri Rafidah Aziz, Minister of International Trade and Industry, speaks fast and has been called the "bullet train" and "rapid fire". Journalists covering her are often warned that they should be armed with a tape recorder to help them do their job, or they may not be able to take down notes fast enough.

Last week she made a flying visit to London - arriving at Heathrow in the morning, speaking to a select group of decision makers in the City of London, and catching the flight home the same evening.

She told the audience comprising entrepreneurs, businessmen, bankers and fund managers that this was not unusual as she flies into Penang in the morning and back in the evening. But this was not Penang. It was London and the flight takes a good 12 hours.

She was none the worse for the long journey. Speaking on Investment Opportunities in Malaysia after the Economic Crisis, jointly organised by the Asian Strategy and Leadership Institute (Asli) and Malaysian British Business Council, Rafidah urged her audience to come to Malaysia now. Why wait till after the crisis is over, she asked.

"If you wait you will miss the boat," she added. Currently, she told them, they will be able to get bargains which will not be available when the economy recovers. Business start-up costs are lower, including office rentals and other charges, when translated into US dollars and pound sterling. "Hence my point of why wait. There is a good flip side to the crisis for businesses," she pointed out.

Datuk Nor Mohamed Yackop, Bank Negara adviser, said: "The bad patch in our economy is about to end. We can see the light at the end of the tunnel," he said, and hastened to add: "And it is not an oncoming train." Foreign reserves have increased, inflation has moderated, foreign investments are coming in, current account is in surplus, sales of cars and property have picked up, the majority of banks are on a sound footing, businesses are beginning to gather momentum and the country recorded a trade surplus last year.

Even as the stock market continues to gather momentum, it is still a far cry from the peak of over 1,000. But just as the Dow Jones index is not a true reflection of the economy, similarly Rafidah told the audience that stock market indices were being seen as major indicators of "so-called investor confidence" by financial analysts.

She noted that to the financial analyst, "investor confidence equals confidence and willingness to invest in the stock and equity markets - regardless of whether these are merely "highly speculative short-term capital".

She hastened to point out that other sectors, such as manufacturing and services, help determine the long-term development of the country by virtue of their contribution to the gross domestic product (GDP), contribution to exports and to employment.

In 1993 for example, 85 per cent of manufacturing output and sales were accounted for by non-listed companies. That is, they were not affected by the "speculation in the stock market for the so-called investor confidence in the stock market". She admitted that the percentage might have changed today, but even a conservative 80 per cent contribution by the manufacturing and services sectors "is still significant".

Even as Rafidah and Nor Mohamed spoke to the British Malaysia Business

Council, independent analysts' reports painted a rosy picture for the Malaysian economy this year. Some forecast that the economy, after contracting by some 6 per cent last year, will register a GDP growth of 3 per cent this year.

Co-chairman of the Malaysian British Business Council, Sir Patrick Gillam, who is also chairman, Standard Chartered Bank Plc, expressed optimism about the Malaysian economy, adding that it has good resources, low debt, investments in technology industries and an educated workforce. The fundamentals remain strong. They have always been good and better than Thailand and Indonesia, he added.

A similar vote of confidence for Malaysia was expressed by Mr John Bond of HSBC Holdings Plc in an interview in Kuala Lumpur. The group chairman of the world's fifth largest bank, HSBC Holdings, had expressed optimism that in the "long run economic growth will return (to the region) and probably outstrip the OECD countries".

Bond noted: "You have talented people, well-educated, hard-working people with desire to succeed. With those ingredients, the inevitable consequence is economic growth."

Undoubtedly, the selective currency exchange rate controls imposed in September last year helped to stabilise the economy, provide for predictability and enabled businesses to plan for the future.

The better domestic control of the monetary policy and the resultant lower interest rates boosted confidence and helped provide the necessary liquidity and credit to "starving" businesses.

The lower interest rates enabled viable businesses and projects to continue their operations as their debt servicing burden is no longer at crippling levels, according to Nor Mohamed, who added: "More importantly, their expansion plans, which had been put on hold following the outbreak of the crisis, can now proceed, thereby generating greater economic activities."

Rafidah told her audience that there was positive feedback from foreign businesses and banks operating in Malaysia regarding the various measures put into place since the crisis.

While there was adverse publicity and comments regarding the selective controls, Rafidah said the feedback received indicated that the lowering of the threshold for obtaining approvals for remittances abroad did not affect businesses. This was because companies already had to apply for approvals all this while as they were remitting much higher amounts than the previous threshold.

Interestingly, Gillam when asked whether the Council had raised the issue of controls and their impact on businesses, replied: "It was not on the table as its members took a long-term view." And indeed they should. Some analysts also pointed out that Malaysia, with the selective controls, not only checked the slide in its economy and currency but also that of other countries in the region. Speculators who were caught unawares by the measures moved out of the regional market, fearing that neighbouring countries might resort to the same measures.

Thus Malaysia, and Prime Minister Datuk Seri Dr Mahathir Mohamad, while being called a pariah by the currency speculators and many others in the international financial community, actually saved its neighbours from further speculative attacks on their currencies and stock markets.

At home, Malaysian authorities have done much to tackle the crisis and put the economy on a firmer footing. Much more than it is given credit for. Bank Negara Governor Tan Sri Ali Abul Hassan said Malaysia was the first country to come out with a comprehensive action plan to tackle the crisis. The National Economic Action Council (NEAC), headed by Tun Daim Zainuddin, took the bull by the horns and drew up the National Economic

Recovery Plan.

The positive sentiments are clearly evident. Disbursement of loans has picked up, as have the number of approvals in development projects. Dr Sulaiman Mahbob, head of the NEAC secretariat, disclosed that the weekly average disbursements of banks loans had risen to RM6.55 billion in February from RM4.98 billion in June 1998.

Investment projects approved by the Malaysian Industrial Development Authority (Mida) increased by 2.3 per cent to 844 projects valued at RM26.4 billion in 1998 from 759 projects valued at RM25.8 billion a year earlier.

During the same period, foreign direct investment approvals rose by 14 per cent to RM13.1 billion from RM11.4 billion in 1997.

The manufacturing sector, which accounts for about 80 per cent of the country's exports, has benefited from the cheaper ringgit. This in turn should act as a booster to their export efforts in the long term.

International reserves have risen from US\$20.5 billion (US\$1 = RM3.80) in June 1998 to US\$28.45 billion as at mid-February 1999. These reserves can finance six months of retained imports.

Malaysia has also made much progress in its banking sector.

Recapitalisation of banks is expected to be completed by the end of June this year, six months ahead of the original target.

Seventy-five per cent of the Malaysian banking system measured by market share of total loans, including foreign banks, has been placed on a sound footing. The risk weighted capital ratio (RWCR) of large domestic banks has been re-established at 12.1 per cent, above the minimum requirement of 8 per cent. This means that domestic banks, and the banking system in general, is now ready to resume its primary role of a financial intermediary to support real sector recovery.

The audience in London was told that with Malaysia's high savings rate, the domestic debt which was widely reported to have been among the highest in the world to the tune of 160 per cent of GDP was not quite what it had been made out to be. Malaysian entrepreneur Tan Sri Rashid Hussain explained that Malaysia's domestic debt gearing was just 1:1, a level unmatched anywhere in the world in view of the high savings rate in the country.

There are definite signs of economic activity in Malaysia, as there are indications that not only has the economy been stabilised but it is on the way to recovery. Malaysia and Malaysians need to tell their story to potential investors, as no one else will. Flying visits, such as Rafidah's last week, will help to convince investors that Malaysia is a safe and stable place for their investments.

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