

22/03/1999

Explaining our measures abroad

Hardev Kaur in London

MINISTER of International Trade and Industry Datuk Seri Rafidah Aziz speaks fast and has been called the "bullet train" and "rapid fire". Journalists covering her are often told to have a tape recorder ready as 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 a flight home the same evening.

She told the audience comprising entrepreneurs, businessmen, bankers and fund managers that this was not unusual as she often flies into Penang in the morning and returns 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", at the function organised by the Asian Strategy and Leadership Institute and the Malaysian British Business Council, Rafidah urged her audience to come to Malaysia now.

She told them they would be able to get bargains not obtainable when the economy recovers fully. Start-up costs are lower now, including office rentals, in US dollar and pound sterling terms.

Bank Negara adviser Datuk Nor Mohamed Yaacob, said: "The bad patch in our economy is about to end. We can see the light at the end of the tunnel ... and it is not an oncoming train."

Foreign reserves have increased, inflation has moderated, foreign investments are coming in, the current account is in surplus, sales of automobiles and property have picked up, a majority of the banks are on stronger footing, businesses are gaining momentum and the country recorded a trade surplus last year.

Rafidah told the audience that stock market indices are seen by financial analysts as major indicators of "so-called investor confidence" although they (the indices) are not an accurate reflection of the state of the economy.

She noted that to the financial analyst "investor confidence" equals a willingness to invest in the stock and equity market - whether or not this involves "highly speculative short-term capital".

She also pointed out that other sectors such as manufacturing and services help determine the long-term development of the country by virtue of their contributions to the gross domestic product, exports and employment.

In 1993 for example, 85 per cent of manufacturing output and sales were accounted for by non-listed companies. They were not affected by "speculation in the stock market" which had hit investor confidence.

She admitted the percentage might be different today but even a conservative 80 per cent "is still significant".

Even as Rafidah and Nor Mohamed spoke to the business council, independent analysts were painting a rosy picture for the year. Several forecast that the economy would register GDP growth of three per cent.

Co-chairman of the business council, Patrick Gillam, who is also the chairman of Standard Chartered Bank plc, expressed optimism about the Malaysian economy.

He said it had ample resources, a low debt level, investments in hi-tech

industries and an educated workforce.

The fundamentals remain strong; they have always been good, and better than in Thailand and Indonesia, he added.

A similar vote of confidence was given by John Bond of HSBC Holdings plc in an interview in Kuala Lumpur. The chairman of the world's fifth largest bank had said that in the "long run economic growth will return (to the Asian region) and probably outstrip the OECD (Organisation of Economic Co-operation and Development) countries".

Bond had noted: "You have talented, well-educated and hardworking people with a desire to succeed. With these ingredients the inevitable consequence is economic growth."

Undoubtedly, the selective currency controls imposed in September last year helped stabilise the economy and enabled businesses to plan ahead.

Better domestic control of monetary policy and the resulting lower interest rates boosted confidence and provided liquidity and credit to "starving" businesses.

"More importantly, their expansion plans, which had been put on hold following the crisis, could now proceed, thereby increasing economic activities," according to Nor Mohamed.

Rafidah said there has been positive feedback from foreign businesses and banks operating in Malaysia on the measures put into place since the crisis began.

The adverse publicity notwithstanding, the feedback indicated that the lowering of the threshold for obtaining approval for remittance abroad did not affect businesses. Companies already had to seek approval because they were remitting much higher amounts than the previous threshold.

Interestingly, Gillam, when asked whether the business council had raised the issue of currency controls, said: "It was not on the table as members are taking a long-term view."

Some analysts also point out that the controls not only checked the slide in the Malaysian economy and ringgit but also that of other countries in the region. Speculators who were caught unawares moved out of regional markets fearing that neighbouring countries would resort to the same measures.

Thus Malaysia - and Prime Minister Datuk Seri Dr Mahathir Mohamad - while severely criticised by currency speculators and others in the international financial community, had actually saved its neighbours from more speculative attacks on their currencies and stock markets.

The Malaysian authorities have done much to tackle the crisis and put the economy on a firmer footing.

Bank Negara governor Tan Sri Ali Abul Hassan said Malaysia was the first to come up with a comprehensive plan to tackle the crisis. The National Economic Action Council, headed by Tun Daim Zainuddin, took the bull by the horns and drew up the National Economic Recovery Plan.

The positive sentiment is evident. Disbursement of loans has picked up as have approvals for development projects. Head of the NEAC secretariat, Dr Sulaiman Mahbob, had disclosed that the average weekly disbursement of bank loans rose to RM6.55 billion in February from RM4.98 billion in June last year.

Some 844 projects valued at RM26.4 billion were approved by the Malaysian Industrial Development Authority last year compared with 759 projects worth RM25.8 billion a year earlier.

Foreign direct investments rose by 14 per cent to RM13.1 billion from RM11.4 billion in 1997.

International reserves have risen from US\$20.5 billion (RM77.9 billion) in June last year to US\$28.45 billion in the middle of last month. These reserves can finance six months of retained imports.

Malaysia has also made considerable progress in its banking sector. Recapitalisation of banks is expected to be completed by the end of June, six months ahead of schedule.

Some 75 per cent of the banking system, measured by the market share of total loans (including foreign banks), has been placed on a sound footing.

The Risk Weighted Capital Ratio of large domestic banks has now been re-established at 12.1 per cent, above the minimum requirement of eight per cent. This means the banks, and the banking system in general, are now ready to resume their primary role as a financial intermediary to support recovery.

The audience in London was told that domestic debt was not quite what it had been made out to be; among the highest in the world.

Entrepreneur Tan Sri Rashid Hussain explained that Malaysia's domestic debt gearing was at 1:1, a level unmatched anywhere in the world. This was due to the country's high savings rate.

The signs are clear that the economy has stabilised and is on the recovery path. Malaysia and Malaysians need to tell their story to potential investors as no one else will.

Visits such as Rafidah's will help to convince investors that Malaysia is a safe and stable place for them.

(END)