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Learning to believe in ourselves

MERRILL Lynch's bullish forecast for Malaysia's gross domestic product (GDP) growth this year is very interesting. Its 4.9 per cent prediction (revised from 2 per cent previously) is the most optimistic by any international investment house, and far above the Government's official forecast of a 1 per cent growth. Given the 1.3 per cent contraction in GDP during the first quarter of this year, the US-based investment house must be very confident that the Malaysian economy will expand very rapidly the rest of the year.

The US-based investment house is not the only one to have revised its outlook for the Malaysian economy. Only yesterday, SG Securities pushed up its forecast to 4.5 per cent from 3.1 per cent made only last month, which in turn was a revision from an earlier projection of 2.5 per cent. Banking group ABN Amro has also said that it expects Malaysia's GDP to expand by 2 per cent this year and 4.5 per cent in 2000. Another leading investment house, Goldman Sachs predicts year-on-year GDP growth for Malaysia of above 3 per cent in the second half of 1999. The greater confidence in the Malaysian economy reflects the success of the various measures the Government has put in place since the region's financial crisis started in July 1997. Since the imposition of selective capital controls last September, especially, many critics have had to admit that their earlier and very bearish prognoses were flawed.

Some of the investment houses, which are now painting a rosier picture of Malaysia, had been responsible for writing epitaphs for the country's economy. Merrill Lynch, for example, had predicted that Malaysian GDP would contract 0.9 per cent this year before revising it upward to 2 per cent in March and to 4.9 per cent now. Still, certain quarters will not be convinced, including a number of local economists who believe that economic data are being massaged by the authorities to help the Government of the day return to power in the next general elections. Some Opposition parties, with the help of these economists, have been telling their members that the economy was actually shrinking. In Singapore yesterday, Nobel prize-winning economist Merton Miller ran down Malaysia's selective capital controls and chided Prime Minister Datuk Seri Dr Mahathir Mohamad for claiming that the controls were a success. But in emphasising his point that other economies in the region were also recovering, Miller inadvertently admitted that the Malaysian economy appeared to have rebounded. Without the benefit of experiencing the difficulties of the economic turmoil and the improvements brought about by the various measures implemented by the Government (not just the capital controls), Miller's opinion is not important.

What's important is that the majority of Malaysians as well as the investors -local and foreign - recognise the signs of recovery and feel the improvements brought about by an economy that is bouncing back. By now most people would have developed greater faith in what the authorities have been trying to do to revitalise the economy. Investment houses and rating agencies will come and go, one moment saying the economy is sinking and the next that it is out of the woods. Remember how South Korea was so highly rated by some international rating agencies before the crisis, and how these agencies - realising their error in judgement - had turned an erosion of confidence into a total collapse when they slashed ratings for the country? Their business will continue to be making adjustments and

corrections to their predictions and estimates.

Our business as Malaysians is to ensure that we are neither depressed by their negative forecasts nor lulled by their upbeat predictions. Malaysia has some ways to go before it can pull itself all the way out of the doldrums while people at Merrill Lynch, SG Securities or Goldman Sachs will play their guessing game and so-called experts like Miller make headlines with assessments and theories that sound clever. Malaysians have to learn to believe in themselves because others won't until they could no longer afford not to; that something they thought was not going to work is actually working, and working very well.

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