

28/04/1999

Some local support evident in attack on our economy

C.C. Thye

MALAYSIANS have been reading about the gradual and painful process of economic recovery over the past months since the implementation of selective capital controls and other monetary policies. This is very heartening. But we should not forget the period from the middle of 1997 to September 1998.

The critics of the Malaysian Government have been talking incessantly about the need for reformasi and keadilan. These are distractions from the more "bread and butter" issue confronting all Malaysians, the state of the Malaysian economy and the forecast of the economy's ability to sustain the recovery process.

Putting matters in perspective, we should remind ourselves that that period until September 1998 was a terrifying time.

We witnessed the collapse of the Thai and Indonesian economies and we read about the incredible convulsions their society was put under. The International Monetary Fund was insisting on so-called "hard and painful economic measures" for Thailand and Indonesia.

We then read with horror about the rioting, rape and pillage in Indonesia. We saw on television the ghost towns in the centre of Bangkok, the long line of desperate Indonesians with tin cups reaching out for rice and cooking oil, desperate crowds trying to withdraw money from the fast collapsing banks and children scooping grains of rice dropped on the ground.

In Malaysia, the managers of the Malaysian economy, then led by Datuk Seri Anwar Ibrahim, which included the Bank Negara, Securities Commission and Kuala Lumpur Stock Exchange, consulted with and took advice from the IMF and similar international financial institutions.

The types of measures taken during the period had all the hallmarks of the harsh measures being inflicted by the IMF on the Thai and Indonesian economies with reckless disregard for the implications on the stability of the local community.

The recently published White Paper on the status of the Malaysian economy listed four "wrong turns" taken during the initial stage of the critics:

- * tiering of commercial banks;
- * credit squeeze;
- * merger programme for finance companies; and,
- * increase in interest rates.

Significant as they were, the "wrong turns" listed in the White Paper did not mention other equally damaging policies implemented by Anwar's economic team. These includes:

- * scrip-borrowing and lending;
- * short-selling regulations; and,
- * the designation of 100 KLCI-linked counters.

The attack (it was, however one looks at it) on the Malaysian economy actually began with the sudden and severe selling pressure by foreign institutions on the KLSE and the ringgit. Both types of selling were conducted based on the short-selling strategy, that is, selling shares and ringgit that the foreign institutions did not have. They borrowed the shares and ringgit from Malaysian institutions. It was completely legal!

Were the so-called economic managers during that time completely naive, or was there some other agenda? Either way, the economy went into a

tailspin. Many of us have lived through that terrible period.

It is very hard to believe what the reformasi group and the foreign media are saying about the Malaysian economic collapse being caused by our so-called "lack of fundamentals". We should ask ourselves whether we worked any less harder between 1996 and 1997. Did we apply for more leave from work? When did we become less productive?

To recap, firstly, the ringgit and the KLSE share prices collapsed due to short-selling activities by foreign institutions with some local support.

Then, in the last quarter of 1997, a credit squeeze was suddenly imposed. Some analysts have called this measure the equivalent of a 20-tonne truck travelling at 100kmh slamming into a solid brick wall. In short, many Malaysians died financially because of that policy alone.

Today, we can breathe a little again. We should be grateful for the very courageous decision of our Prime Minister Datuk Seri Dr Mahathir Mohamad who had the guts to institute the unorthodox measures that the White Paper has narrated. The war is not won yet. But we are, at least, beginning to win some battles once again.