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Malaysian policies pre-emptive, ahead of the curve

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THE US and Japan, for the first time in decades, are facing economic problems at the same time. There is also uncertainty in the global financial system - a double whammy for the world.

The only bright spot, and a patchy one at that, is the European Union (EU). The consensus is that Europe will not be able to act as the engine of growth and pull the world economy out of the slowdown.

With the world economic engine slowing down and according to some the world economy is headed for a bumpy ride, it is thus important for countries to take steps to cushion the adverse impact on their citizens and businesses.

The signs and signals are clear. The World Bank has revised downwards the growth for the global economy to 3 per cent. Similarly regional organisations, analysts and others are competing to revise their forecasts. The world trade is also showing signs of moderating from last year's levels. Prices are sliding just as multinationals are revising their profits and revenues downwards and major bourses appear to be in a "race to the bottom".

While forecasts look to the future, the important thing is not the forecasts, revisions and the new growth figures that are churned out by the World Bank, the Asian Development Bank, the analysts and others, but what is done about the scenario presented by these forecasts.

"It is very important to do the diagnosis early... and to get it right," Datuk Dr Zeti Akhtar Aziz, Bank Negara Governor said. It is only with the right diagnosis can relevant policies and remedies be devised and implemented. The folly and pain that goes with wrong and delayed diagnosis is clearly evident in many regions around the world. The misery and agony of millions affected by wrong, misplaced policies and painfully slow and delayed prescriptions do not show up in grim scenarios and statistics.

The International Monetary Fund (IMF), for example, failed to diagnose the problem in Asia during the crisis. It thus prescribed remedies that made the situation worse than it should have been.

The differences in diagnosis and the approach to the crisis between the two Bretton Woods Institutions - the World Bank and IMF - while the patient was ailing, did not help. Then again the IMF took its own time to disburse the badly needed funds to the countries concerned.

Malaysia on the other hand proved critics wrong with its diagnosis and home-grown remedies during the 1997 crisis. Many are now coming round to take a close look at the policies and admit that Malaysian policies have worked and worked better.

Just as the right diagnosis and appropriate policies are important, so too is the timing and implementation of policy measures.

It is important to institute early action for desired results. In most cases, the necessary policies are reactionary and implemented when the economy is already in the throes of economic problems. By then precious time is lost and the bad situation deteriorates.

Even in the US, while the Federal Reserve has in recent months reduced interest rates three times in as many months but the economy is still sputtering. The US response to the economic malaise has not been as prompt as Malaysia's. Alan Greenspan, the Federal Reserve Chairman, had told the House Committee on Banking and Finance "... that despite the still very solid American economy as of now, there are really the first signs of

erosion at the edges (in the US economy)... and we are beginning to see risk spreads open up".

But it is only now, when the economic engine is sputtering, that the Fed is aggressively trying to act. Is it too little too late for the world's largest economy?

Malaysia is perhaps the only country worldwide be they developed or developing that has taken pre-emptive measures to cushion the adverse external impact from the US economic slowdown and to boost the domestic economy in the face of an increasingly poor external sector. Self help is the best policy to counter the downturn in Malaysia's two major markets - US and Japan. Together they account for some 51 per cent of Malaysia's total exports.

Malaysia has the advantage in that the Government has the flexibility in responding with policies. The underlying economic fundamentals remain - strong current account, low interest rates, low external debt, high savings, stable monetary and exchange rate conditions.

The banking sector is also in a stronger position with much healthier balance sheets with a marked improvement in profitability exceeding pre-crisis levels.

The Government thus has the option to increase spending to stimulate domestic economy. There are sufficient funds available domestically. Analysts say some RM75 billion is lying idle in the banking system. Zeti said Bank Negara had mopped up RM51 billion from the domestic financial market.

The pre-emptive policies are designed to build, enhance and increase confidence of business and consumers. While domestic spending is being encouraged it must be "productive spending" which will yield a multiplier effect. Productivity must be increased to retain and enhance competitiveness both at home and in the export markets.

The various fiscal measures are expected to increase growth by one percentage point and the forecast is for Malaysia to register a growth of between 5 and 6 per cent this year - the highest in the region. The Asian Development Bank's forecast of 5.2 per cent GDP growth for Malaysia is also the highest in the region. The IMF's poster boy, South Korea is expected to register a slower growth of 4 per cent.

Then again announcing policies and plans is easy. Implementation and ability to execute them to achieve the desired results is even more important. The option is not readily available to many governments and neither do they have the ability, capacity nor the independence and authority to do so.

The RM3 billion pre-emptive fiscal stimulus, announced by the Prime Minister Datuk Seri Dr Mahathir Mohamad last Tuesday to boost domestic consumption, is within the Government's capacity and ability to implement. A "Flying Squad" has been established in the Ministry of Finance to monitor implementation of projects.

The daily monitoring of developments by the National Economic Action Council, set up during the recent financial crisis, for a close scrutiny of developments and offered authorities timely and critical information which enabled the government to devise the necessary, critical and appropriate responses.

Valuable lessons have been learnt from managing the 1997 crisis and these will be useful in dealing with the new economic environment with slowing US and Japanese economies. There is no room for complacency. It is time to act to ensure that the RM3 billion in addition to the RM28.8 billion approved in the 2001 Budget provide the "bang for the buck".