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The great crash: What now for Malaysia?

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NEVER mind that the United States economy may slip into recession and that the pandemonic selldown on Wall Street is creating ripples around the world. Never mind, too, that the prevailing uncertainties may push Malaysia marginally into negative growth, and that unemployment is rising and affecting the pocket of the man-in-the-street.

Amidst all the doom and gloom, there seems to be a silver lining. Firstly, the Government, in a determined effort to reduce the downside to the Malaysian economy, announced a RM4.3-billion stimulus package to cushion the impact of a global slowdown. The package is in addition to the RM3 billion announced in March and RM28 billion allocated in Budget 2001 last year.

The RM3 billion is mainly for infrastructure projects while the RM4.3 billion focuses, among others, on small development projects, training of retrenched workers and tourism promotion. Compared to the RM3 billion stimulus, where only RM200 million has been used so far, the RM4.3 billion is to be disbursed on a fast-track basis.

Dr Yeah Kim Leng, chief economist of Rating Agency Malaysia Bhd, feels that the RM4.3-billion package is primarily meant to alleviate the social impact of the economic slowdown and encourage domestic consumption.

Considering the circumstances, the Government has no choice but to embark on fiscal spending. While the stimulus package are explicit measures, what is more profound and significant is that some refined implicit steps to retune the economy also seems to be taking place.

The prolonged economic slowdown and the impending rise of China as Asia's next growth centre is forcing Malaysia into a possible policy shift. Nobody talks about it officially but the tell-tale signs are becoming evident.

In recent months, politicians have been talking about improving competitiveness, especially among the younger generation of Bumiputeras. The intake of students in three faculties at universities is to be based on performance. Concrete measures are being taken to restructure companies that are perceived to be well-connected.

Then we have seen industries being liberalised. For instance, a French company today dominates the local cement industry while foreign partners have a major say in at least one telecommunications outfit.

The changes are trickling in. But the sudden deterioration of the global economic scenario following the terrorist attack of Sept 11 on America and the resultant collapse of Wall Street is likely to speed up a paradigm shift.

'There has got to be a shift in economic policies. It is important to identify the next source of growth,' says Nor Zahidi Alias, head of investment research at Alliance Merchant Bank. 'I guess the Government is having a feel of things first.'

Besides the gloomy global outlook, Malaysia, like many in the region, will also have to contend with the rise of China as the next haven for investors. The country, with its huge domestic market and cheap labour, is looked upon by investors as the place to invest. China is poised to enter the World Trade Organisation (WTO) in November, a move that is expected to pave the way for investments to pour into the country in a big way.

For Tan Teng Boo, managing director of independent equities investment house Capital Dynamics, Prime Minister Datuk Seri Dr Mahathir Mohamad's

statements on meritocracy is the most important economic policy for Malaysia.

`But to attain sustained economic growth, the performance-based system and culture must be extended beyond the intake of students in universities. It must be broadened to the corporate and public sectors,' he says. `We have to realise that recovery from the 1998 recession can only be sustained if we have the foresight and courage to discard any prevailing economic policies that are found to be redundant.'

The traditional cure of government pump-priming and pinning hopes on exports recovery to boost growth are short term measures. While it relieves the pain in the immediate term, many now realise they are not the answer to the question of long-term growth, especially with the looming spectre of a global recession and increasing competition from emerging economies.

Some feel short-term Keynesian-style aggregate demand management needs to be supplemented with aggregate supply management policies to increase gross domestic product (GDP) over the long term.

`We may have to fiddle with the supply side now. We may be looking at some kind of Reaganomics,' Nor Zahidi says. Reaganomics or otherwise known as supply-side economics is a policy that aims to boost productivity and reduce inflation by cutting down red-tape, deregulating, reducing taxes and enhancing human capital.

At present, the supply side of the economy faces problems with corporate debt in the banking system that has not been adequately settled. Non-performing loans are on the increase as a result of the worsening economic environment. The corporate debt overhang and the slowing economy on the back of excess capacity are bogging down private investment. This in turn is affecting Malaysia's competitiveness, as new production technologies are not streaming in.

Sunway Group corporate adviser, Tan Sri Ramon Navaratnam, feels that great effort must be put in to tap human resources and ingenuity to survive and expand output and efficiency to overcome problems of a global slowdown.

`We cannot afford to be too preoccupied with distribution at a time when prospects to expand the cake are dim. We can return to the need to share the wealth of our country when the situation improves,' he says.