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Time for change

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MALAYSIA'S continuing economic malaise - precipitated by the 1997/98 financial crisis - seems to be calling for a major shift in policy.

With the global economy teetering on the brink of recession, some feel Malaysia is undergoing a re-tuning process.

'I feel the Government is trying to get a feel of things in identifying its next engine of growth,' says Nor Zahidi Alias, head of investment research at Alliance Merchant Bank. 'The services sector will play a vital role and the authorities are definitely paying more attention to human capital.'

In recent months, the Government has been expressing its desire to increase competitiveness among Malaysians, especially the younger generation of Bumiputeras. Prime Minister Datuk Seri Dr Mahathir Mohamad leads the chorus in urging the younger set to be more competitive or lose out in the longer term.

Meritocracy, a taboo word a few years ago, is now being discussed openly. Three faculties in local universities will adopt the meritocratic system in student intake from next year. Crucial industries previously the domain of local companies are now being liberalised. The telecommunications sector is open to foreigners while a French-based company dominates the cement industry. Infrastructural facilities are also taking in foreign partners.

The Port of Tanjung Pelepas saw the entry of Maersk Sealand as a 30 per cent strategic partner while Westport has HKT Terminal of Hong Kong as a 30 per cent stake-holder. Recently, Schipol Airports of Amsterdam took up 30 per cent interest in Malaysian Airports Bhd, a move many feel will inject dynamism into the airport operator.

For Tan Teng Boo, managing director of Capital Dynamics, an independent investment adviser, Dr Mahathir's emphasis on meritocracy is by far the most important economic policy for the country.

'Economic policies and systems lay the foundation for economic progress. But at the end of the day, sustained economic development can only come from the energy of human capital,' he asserts.

Malaysia has seen major shifts in economic policy since the 1970s. Incidentally, each was normally preceded by a prolonged US downturn. America went into a recession in November 1973. The rest of the world including Malaysia followed suit.

The event prompted the public sector to take the initiative in spurring economic growth. It took the upper hand in investment and consumption. Over the years, public-sector debt ballooned.

Between 1980 and 1982, the US economy went into another recession. The spillover was felt in Malaysia, more profoundly in the mid-1980s. Prolonged subdued demand for commodities coupled with the collapse of the tin market at the end of 1985 created a deep and severe recession. Unemployment went up as high as 8.8 per cent.

The event brought on a significant change in Malaysia's economic policy. It shifted the onus of growth from the public to the private sector. The Government actively promoted investment activities and privatisation policies were moving at full throttle. The role of the Government as engine of growth was gradually shifted to the private sector.

The move fuelled a proliferation of mega-projects, mostly in the area of infrastructure. Private sector investments leveraged heavily on capital

markets. Bankers dispensed loans freely on the assumption that the Government would not allow projects to fail. Cashflow viability often took a back seat.

The over-investment led to aggregate demand out-stripping supply, causing the current account, already in deficit, to bulge even more. The policy of distribution of wealth through non-economic procedures such as negotiated tenders also played a role in bringing about inefficiencies and higher costs. It took the financial crisis of 1997 to lay bare the weaknesses of the economy.

The days of unbridled investment-led growth are over. While in the pre-crisis years investment contributed to almost half the aggregate demand, it has now declined drastically. The after-effects can be felt in the form of excess capacity in many areas, especially infrastructure.

The initial response after recovery in 1999 was to constrict money supply. However, it did not last long. The Government embarked on the Keynesian approach to boost public spending and investment. Exports grew from the cheap ringgit and a buoyant US economy.

But since late last year, exports have been falling. Public sector consumption and investment, while comforting for a while, have not been enough to sustain growth.

Nor Zahidi feels that the focus in Malaysia could now be on the supply side. He says there could be a policy shift towards 'Reaganomics' .

'What happened in the US in the 1980s could come into play here,' he says. Reaganomics, initiated during the era of President Ronald Reagan, is regarded by some as one of the fundamentals in the longest period of sustained growth enjoyed by the US.

Supply-side economics basically reduced the Government's role, regulations and taxes and increased other incentives to increase productivity. 'In the short term there may be a deficit because of reduced taxes. But in the long run, the increased productivity not only brings down inflation but also a budget surplus,' says Nor Zahidi.

Malaysia, being an open economy, has had its fair share of policy shifts in line with changing external factors. Even before the terrorist attacks of Sept 11, the US economy was already sinking. Unemployment was rising, corporate profits dropping and consumer demand waning. The incident merely increased the intensity.

The Malaysian economy, after a brief recovery from the 1997 crisis, is now staring again at a slowdown or even recession. Recent developments, especially in the area of education, foreshadow a shift in government thinking. But to be effective, their scope and horizon need to be broadened. Such performance-based measures may not be popular nor will they erase bearish sentiments on the stock market but they are ingredients for a stronger market in the longer term.

Tan sums it up well. He says a Malaysia that derives its growth and development from a competitive and performance-based system and culture will be an irresistible attraction, even with the impending entry of China into the World Trade Organisation, an event many expect will boost the country's attractiveness as an investment destination.

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