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Towards better financial services

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WHAT'S happening to the Malaysian economy? Are we doing enough to counter the global and Malaysian economic slowdown?

Bank Negara's latest report has confirmed that the growth rate for 2000 was an impressive 8.5 per cent and inflation was low at 1.6 per cent, while our external and short term debt have declined appreciably.

This is encouraging - but what about the economic outlook for 2001?

Looking abroad, the United States economy is facing increasing danger of falling into a recession.

The US has clearly been living beyond its means, like some developing countries with huge national debts and big deficits in their balance of payments.

No wonder Federal Reserve chairman Alan Greenspan announced on Feb 28 that the US economy is at risk of sub-par growth or very slow growth.

US President George W. Bush is now trying to get the economy back on the rails. With drastic interest rate cuts and the strong possibility that some of his proposals to cut taxes by a massive US\$1.6 trillion will be passed by Congress, he hopes to save the US economy from a real crash.

I wish the US Government can lead by example and show the world that it has the capacity to manage the world's largest economy responsibly, since its mismanagement can have severe repercussions on the rest of the world.

Our second largest trading partner Japan is still doing badly. In the third quarter of 2000, the economy shrank by 0.6 per cent and for the last quarter of last year it is expected to have zero economic growth or even negative growth. That would put the Japanese economy technically in recession for the second time in two years.

One important solution is for the US and the other Group of Seven rich western countries to allow the Japanese yen to depreciate further. But this concession from the West is highly unlikely.

On the contrary, the US will probably use stronger pressure on the Japanese economy to open up its market to expand Western trade and investment in the Japanese economy in order to dominate it.

Gradually the Japanese will have to give in but they will fight hard to resist. This will take time and like the proverbial pelanduk, Malaysia could be caught in between!

Europe is comparatively in the best shape. But if the two largest economies sink into recession, Europe too will decline, despite the saving grace of its Euro currency.

From Malaysia's perspective, all these negative global developments can have serious implications on us. However, it is already about three months since the US officially admitted its economic slowdown.

Hence it begs the question: What have we done to meet the threat of the US and Japan's prospective economic decline?

We cannot afford to wait much longer to "continue to study the impact of the downturn of the US economy and then take appropriate action", as indicated by a senior government official recently.

We have to act now. But we have not done much in recent months to face up to the deteriorating global economic situation.

The big indicator of a Malaysian economic slowdown is the weakening in the balance of payments. From a hefty surplus of RM11.6 billion in the first quarter of last year, it fell to a big deficit of RM6.4 billion in the third quarter.

Apparently, our export earnings are not being returned home fast enough. Added to this problem is the large outflow of short term private capital of RM12.7 billion up to the third quarter of 2000.

The message from our businessmen could be that our low interest rates are relatively unattractive, so they do not want to bring their export earnings back in a hurry. Or it could be that they are investing their export earnings abroad due to better opportunities and less constraints.

There is also the growing uncertainty as to how long our pegged exchange rate can remain fixed at RM3.80 per US dollar. If the ringgit weakens due to a further weakening in the balance of payments and the overall economy, then it is likely that the real value of the ringgit could decline to RM4 to the dollar or more.

Then a black market and the ugly practice of false customs declarations could develop to circumvent the fixed currency peg. Capital outflow could increase and that would be bad for the economy.

Already what is worrisome is that the long term capital inflows for the first nine months of 2000 shrank by nearly half, from RM11.3 billion to RM5.9 billion from January to September 2000.

Private long term capital constituted RM300 million of this loss. Hence it is clear that foreign direct investment is declining and not increasing, as is sometimes made out to be.

Therefore the recent Mida announcement that Singapore submitted the largest number of applications for investment in Malaysia, involving RM2.78 billion, has to be taken cautiously.

Many foreign investors simply apply for permission to invest, but do not necessarily end up investing in hard cash. They just look, wait and see what happens first before they part with their money.

It is therefore encouraging that the the US-backed 1st Silicon (M) has invested US\$1.7 billion or RM6.46 billion in Malaysia's first highly sophisticated wafer plant in Sarawak.

Although Singapore is only the fifth largest foreign investor its importance is significant.

Hence the recent visit to Singapore by the high powered delegation led by our Deputy Prime Minister Datuk Seri Abdullah Ahmad Badawi is laudable particularly since from all accounts, the visit was an outstanding success.

Thus most Malaysians and Singaporeans keep asking: Why can't both our countries start a new era of improved business relations at a higher level of co-operation for mutual benefit?

I am sure it's not beyond the ingenuity of both sides to refrain from making insensitive remarks publicly.

But it's more difficult to have a deal with the US because of its somewhat condescending and oligopolistic mass media that is controlled by the few media moguls with their own hidden agendas.

Unfortunately many influential Americans and a few other Westerners do not understand how strongly most developing countries, including Malaysia, associate globalisation with 'gobblisation' and the threat to their socio-economic stability and national sovereignty.

This perception becomes real when the US (influenced by its big business), tries to impose its brand of globalisation upon Third World countries with such unholy haste.

Nevertheless, it is still worth trying to improve Malaysia-US relations in the interests of better trade and investment at least. To start with both sides can reduce the rhetoric.

In the meantime, it encouraging to have read a favourable foreign report on the Malaysian economy from a highly reputed financial analyst like Michael Dee, the new regional chief of Morgan Stanley Dean Witter. He said

there is an awful lot right about Malaysia.

It is hoped that there would be more independent and fair foreign analysts who will not single out Malaysia or the Third World countries exclusively for allegations of corruption and cronyism.

At this very time, the former US President is being investigated by the FBI for his last minute pardons for fugitive financier Marc Rich and his former business partner Pincus Green and, for removing silverware and furniture from the White House! So let there be more balanced criticism.

On our part, we will need to raise our own standards of corporate governance and get the best people to lead in the public and private sectors. Thus the appointment of sound professionals like Tan Sri Azizan Zainal Abidin and Datuk Md Nor Yusof to head our national carrier MAS will strengthen public and business confidence.

Hopefully many more changes will be made to replace those top officials in the Government and the private sector who let down the Malaysian public. Then both local and foreign investors will become more bold and less nervous about investing in Malaysia. Then the stock market will also perform better.

The new 10-year Capital Market Masterplan of the Securities Commission would strengthen corporate governance but the implementation of its commendable 152 recommendations will be closely watched with great expectations.

Bank Negara's 10-year Financial Sector Masterplan introduced on March 1 is also most welcome. Now we can look forward to better banking and financial services that would be comparable to world standards.

It is hoped that Bank Negara will benchmark and monitor the industry's performance so that the public will be able to appreciate the improvements in efficiency. Local banks at least need to provide better services than foreign banks that are already here.

Similarly, the strong assurance given by Prime Minister Dr Mahathir to the British Malaysian Chamber of Commerce that Malaysia will continue to be business and investment friendly, to quote British High Commissioner Graham Fry, will be reassuring, especially to those foreigners who had thought otherwise.

Perhaps other leading investor countries in Malaysia could take the cue and organise other dialogues, to be further assured that Malaysia is indeed friendly to foreign investors.

In conclusion, there are now more indications that the US and other major economies are in danger of slowing down sharply. The Malaysian economy is already showing signs of contracting.

But confidence in the government's capacity to respond to the growing economic problems has been softening. It is therefore necessary for the Government to come out more clearly to inform and assure all Malaysians of its specific plans to counter these emerging global and national economic challenges.

The speedy resolving of the current political controversies that cause uncertainties and adversely affect the economic climate would also help to enhance business confidence.

All these need to be done soon to lift the economy out of its present malaise and raise public confidence in the Government's capacity to lead us strongly through these difficult times.