

Malaysia: Truly an Asian growth star?

by William Pesek Jr

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TOKYO: Politicians love few things more than seeing their enemies proven wrong. It's a feeling with which Malaysian Prime Minister Datuk Seri Dr Mahathir Mohamad is in touch these days as some former nemeses are giving him his due.

Take financier George Soros, who just four years ago was calling Mahathir a "menace to his own economy". Mahathir had just implemented capital controls to halt outflows that sent the ringgit into freefall. Nowadays, however, Soros is reportedly putting some money

into Malaysian sovereign bonds. Ditto for Calpers, the California pension fund which earlier this year withdrew from Malaysia. Calpers also pulled out of "three other Southeast Asian economies, citing dodgy corporate governance, transparency and labour standards. Calpers also was reported to be buying Malaysian debt recently.

Then there's the US, which demonised Mahathir's economic policies during the Asian crisis. At the time, Treasury officials claimed that Mahathir, by removing Malaysia from the global economy, would send his nation into poverty and chaos. Yet last week, senior US State Department official James

Kelly heralded Malaysia as a beacon of stability.

Malaysia's reversal of fortune has much to do with its economy's performance. As many Asian economies limp along, Malaysia is riding high thanks to robust consumer spending, strong foreign investment and a revitalised banking system.

The nation also is well positioned to benefit from the ongoing rebound in global growth, especially in the US. Some analysts see Malaysia growing 6% this year.

Firebrand

"Malaysia is doing remarkably well, yet no one wants to admit it because they don't want to give Mahathir the

credit," says Simon Ogus, chief executive at DSG Asia Ltd in Hongkong.

Mahathir, after all, is an undisputed firebrand of the global economy and has made his share of headlines over the years condemning Western-style capitalism and economic globalisation. He's called for a ban on currency trading, blamed Jews for Malaysia's problems and become known for anti-market rhetoric. Admitting that he's done some good for his economy isn't easy.

It would only be fair at this point to do just that. We're not referring to

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Mahathir's capital controls a few years back his economy has not thrived because of them but despite them. What Mahathir deserves credit for is improving corporate governance and cleaning up the country's banking system. He has marshalled through plans to force banks to write down bad loans and has had remarkable success.

Reality check

But a reality check is in order. For all its strengths, Malaysia is facing the same daunting challenge as its neighbours. Mahathir has kept the ringgit pegged at 3.8 to the dollar since September 1998, ignoring pressure from investors to let the currency trade freely. The currency peg may reduce volatility in the economy but it is hurting competitiveness.

Malaysia's situation "has highlighted the problems associated with over-reliance on export-led growth", the Asian Development Bank said in a recent report.

The nation also has to go further to convince investors that its capital markets will remain open if things get dicey. Mahathir's recent proposal of a world tax on wealthy nations to

help poorer ones was but one reminder that Malaysian-style capitalism differs from western ideals.

Beyond that, Malaysia is facing other impediments to rapid growth, including a shortage of skilled workers and overcapacity in its property markets.

Still, Malaysia has succeeded where many in Asia continue to fail. Tokyo has dragged its feet for over 10 years now on its non-performing loans problem.

Mahathir took his cues from investors who fled his economy in 1997 and 1998 and got actively involved in fixing the corporate and financial sectors. Rather than leaving the private sector to find a solution, Mahathir pushed institutions to sell bad loans to a new government agency, which then disposed of them.

Double-digit gains

PK. Basu, a Kuala Lumpur-based economist at Credit Suisse First Boston, predicts by September all major debt restructurings will be completed. With the worst of the forces that caused the Asian crisis now behind Malaysia, Basu says, bank lending and corporate bond issuance should grow at double-digit pace this year. It is this progress that

has ratings agencies mulling upgrades of Malaysian debt.

"Malaysia's positive outlook reflects accelerated corporate restructuring, a strengthened financial sector, continuing large current account surpluses and robust international liquidity," Fitch said.

Malaysia is also getting high marks for stability since the Sept 11 terrorist attacks.

In the months' that followed, investors worried about trends in a nation that is 60% Muslim and one in which anti-US sentiment got a lot of attention.

Mahathir's hard line on terrorism has earned him an invitation to the White House next month.

The nation's leading think tank, the Malaysian Institute of Economic Research, thinks the stock market will gain 27% this year. Analysts at CLSA Emerging Markets registered their vote of confidence last week with a report entitled "Malaysia in Vogue".

Not bad for an economy that just a few years ago was thought to be headed back to Third-World status.

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