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Economy awaits polls lift

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WITH the economy going so well, analysts expect a sweeping general election win for Barisan to put the final touches to what many predict will be a bumper year. MUSTAPHA KAMIL looks at the business fundamentals.

WITH last Wednesday's blazing economic numbers, only one piece remains to complete a puzzle that spells "certainty". It may well lie in the political arena.

Positive vibes are in the air and if a general election is decided solely by the health of the economy, a fund manager has this to say: "A foregone conclusion. This will be one of the region's most certain and peaceful elections in recent years."

Economy-wise, confidence is in abundance, especially in recent months. The 2003 GDP growth rate's beating of every forecast is just icing on the cake the Barisan Nasional will offer in its campaign for a fresh five-year mandate.

The equation is as simple as it is true - a strong economy means a strong government.

Prime Minister Datuk Seri Abdullah Ahmad Badawi's first 100 days in office provided more torque to an economic powertrain started by his predecessor Tun Dr Mahathir Mohamad.

There have been changes since Abdullah took office last October but the fine-tuning has been well received by the commercial sector, which believes economic activity is now racing towards pre-1997/98 crisis levels. The changes aside, Abdullah is also keeping to his promise of providing continuity.

The last time Malaysians went to the polls in November 1999, the country was still coming to terms with the harrowing experience of surviving a double-edged attack. The economy was grossly weakened by a financial crisis and there was political heat from the sacking and conviction of former Deputy Prime Minister Datuk Seri Anwar Ibrahim.

The coalition nevertheless won, since, from an economic perspective, the Government was seen as the only one that could steer the country out of the mess.

In the months preceding, the economy was already recovering, much of it due to several unconventional policies and approaches put in place by Dr Mahathir's administration. What the Government did then, while not easily acceptable to textbook economists and international funds, was rather simple.

It locked out disruptive foreign elements, flooded the financial system with cheap money, tempted people to spend to keep the domestic economic wheel spinning, managed price levels and drove up production and exports.

It took some time for the international community to understand Malaysia's moves and some time, too, before the "pariah nation" tag was lifted. But lifted it was, eventually.

When International Monetary Fund managing director Horst Kohler dropped by last year to acknowledge Malaysia's success in navigating out of the region's dark years, the nation was vindicated.

Last October, Abdullah inherited an economy that had regained its strength. He took on the challenge of managing success and dealing with sceptics. What was left was to smooth the rough edges and build a political platform of his own to take Malaysia closer to the Vision 2020 target.

Many in commercial circles are attracted by Abdullah's demeanour. Soft-spoken yet firm, they say his nononsense approach will ensure a disciplined and prudent economy. His first 100 days, marked by his resolve to wipe out corruption, among other shortcomings, has made commerce easier by doing away with red tape and wastage of government funds, they say.

The stock market has responded positively, surprising analysts more familiar with bull runs after each of the last four elections. "This time the market is not waiting," a fund manager said. From an economic perspective, Abdullah and the coalition he heads are ready for the polls.

The cost of money is still cheap this year and flush with liquidity. To balance this, Bank Negara remains active in managing any swings to ensure stable money market conditions. As a result, while the money market is highly liquid, interbank market rates remain stable.

Combined with virtuoso performances by banks as reflected in their recent annual results, that means financing will continue to be available to individuals and businesses. Consumers remain confident and are spending more. Currency in circulation rose by RM2.9 billion in January this year to RM29.01 billion from RM26.1 billion in December 2003.

Factories operated overtime last year, with electronic products lifting the sector's performance by 12 per cent. Export-oriented manufacturing rose by 17.2 per cent in the last quarter of 2003 while those catering for the local market rose by 8.3 per cent.

Net exports rose by 10 per cent during the last quarter of 2003 against a 4.4 per cent rise in the third quarter, helped by the buoyant electronics sector, increased demand from China and the weaker US dollar (the ringgit is pegged at RM3.80 to the greenback). The strong manufacturing and export numbers attracted more investments to the private sector.

The country's reserves strengthened by US\$4.2 billion to US\$44.9 billion at the end of 2003 as more offshore long-term money was pumped into trade and investment in Malaysia. To the delight of the stock market, more portfolio capital also made its way in, after a number of funds saw Malaysia blip back on their radar screens.

Overall, the economy grew by 5.2 per cent in 2003, surpassing many forecasts and, more importantly, injecting confidence into the hearts of Malaysians.

The stock market will probably have more to add to Malaysia's sweet economic recovery story. The benchmark KL Composite Index closed at new highs on a daily basis last week as investors put their money in blue chips, especially banking stocks. The 260-point level reached when Asian economies tanked in 1998 seems a distant memory in investors' minds.

One by one, foreign investment houses have released favourable analyses on the Malaysian economy, a number of them saying it is time to return. Confident as the fund managers may be, the elections may not be decided on economic strengths alone.

But with the economy in good shape, half the battle is already won. If the Abdullah-led coalition wins by a landslide as is expected, it will be easier to forecast Malaysia's immediate future. And there is nothing that investors and the markets love more than certainty.