

Q & A with Tun Daim Zainuddin : More should be done fast

Saturday, 07 March 2009 08:28AM

©Malay Mail (Used by permission)THE ongoing global financial crisis has had many concerned that the local economic environment could soon start deteriorating in the same way that many suffered during the 1997 Asian crisis.

Having seen how astute and bold local economic strategies instituted in 1998 had helped the nation successfully circumvent the worst of the financial crisis then, expectations are now high that success could be repeated with the upcoming Mini Budget that the government is set to reveal on Tuesday.

As one of the key architects who helped guide the nation successfully through the last economic turmoil, former Finance Minister and ex-National Economic Action Council executive director

Tun Daim Zainuddin is well-versed with some of the hard decisions that had to be made for the good of the nation's economic viability.

In an interview with Utusan Malaysia this week, he gave his views on current developments on efforts undertaken in the face of this global financial tsunami. Here we present the first of a two-part series:

How would you explain the present crisis?

To understand the present crisis, we have to go back in history. Before the fall of the Soviet Union and its satellites in 1989, there were two economic systems, i.e. capitalism and communism.

With the fall of the Soviet Union, capitalism triumphed. Almost everybody embarked on market economies. Every nation embraced globalisation and practised free economies, except for China, Vietnam and Cuba. China and Vietnam remained under communism, but opened up their countries for business while the government played a key role in the economy.

In a free market economy, it is acceptable that there will always be cycles of "boom and bust". British Prime Minister Gordon Brown even boasted that Britain will not go through these cycles but will boom with his policies.

But the truth is that a free market left to itself without regulations will go wild. It will be like the Wild West cowboy economy or, as some term it, "Casino economy". This is what happened in America.

De-regulation allowed market players to do what they liked. There was no control. They created worthless papers and sold these papers worldwide as they were rated "AAA". In the end, greed takes over. We have all heard or read about the "subprime" sector collapse. We ourselves too have Pak Man Telo here. Now Pak Man Telo has gone global as can be seen in the fund scandal of Bernard Madoff et al. These characters should be put away for life.

As a result, all the banks in America and Europe faced problems. Banks now can't lend. To succeed, capitalism needs capital. But, capital has gone dry, greed dried up capital. Hence, there were huge and massive bailouts. Citigroup alone was given US\$300 billion. Suddenly, the free market economy has become socialist instead. What a reverse.

Now, governments owns banks and major industries. Capitalism has gone haywire.

Another aspect is that America lives lavishly on borrowed money. They import goods and buy on credit. Now, their credit is gone. So goods can't be sold. Companies retrench workers as they can't sell what they produce. Those countries that export to America find the export market has contracted. Their factories now face problems and many retrench workers.

What started as an American problem has spread to Europe and now Asia. Soon we will hear bad news from Russia. All exporting countries linked to a global economy are in crisis.

Luckily for most Asian countries, they have high saving rates. But the people are not spending and the government is actually asking people to spend to keep their economies going.

Still, the crisis is very serious. It is global and needs a global solution. G7 has met. Soon G20 will meet. But unless all think globally, they will not be able to solve it.

No one country can hope to solve a crisis alone that is regional, or in the present case, global. The Chiang Mai Initiative was agreed during the last crisis and it helped to stabilise the turmoil.

In this instance, I am happy that Asean+3 have met recently, but I would have expected Malaysia to engage Japan, China and the Middle East privately.

Malaysia does not practise any "...ism" but has adopted policies that are good for us. During the 1997 financial crisis, I quietly went to Japan and Taiwan a number of times to get financial solutions. I also visited Indonesia and Thailand.

The global economic crisis seems to be worsening. In your opinion, has Malaysia taken the appropriate steps to address the situation?

Malaysia is beginning to feel the impact of the global crisis and this impact can be seen in the real sector of the economy. For example, Malaysia's industrial production has declined since September 2008 while exports contracted since October 2008.

The government introduced the first fiscal stimulus programme, which includes infrastructure projects, training of workers and incentives for investment. These projects, if implemented promptly and effectively, will help keep the economy buoyant. But, we are not sure how effective the implementation of these projects are because we have yet to see their impact.

Many local analysts and economists allege that the government still hasn't executed economic recovery measures adequately. What is your opinion?

Latest figures released by the government show that up to the end of last year, the Malaysian economy was still registering a positive performance. However, the impact of the crisis can come very suddenly, as has happened in other countries. Although the government has taken the initial response, more should be done quickly, particularly in dealing with specific sectors that are experiencing difficulties.

Compared with other Asean nations, has Malaysia been slow to address the issues concerned?
Malaysia's response is about the same as other Asean countries, with the exception of Singapore. Among Asean countries, Singapore is the worst hit because it has a larger exposure to exports and it has a small domestic economy. That is why Singapore's response is faster and bolder because its economy is already in a recession.

For Malaysia, we have a larger domestic economy that can cushion the impact better and we also have a more balanced economic structure (agriculture and services).

How far will the US economic recovery have an immediate impact on Malaysia?

US economic recovery is critical to global recovery because it is the world's largest economy and consumer. Therefore, as a country that is very much linked to the global economy, Malaysia will benefit from an early recovery in the US economy, especially if US starts to import again. However, the Federal Reserve has said that the earliest forecast for recovery will be in 2010.