

**OTHER THOTS: ABDULLAH'S RETIREMENT DATE POSER**

**MALAYSIAN**

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# BUSINESS

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## TECHNOLOGY



Right Time  
for IPTV?



Tun Daim:  
Prepare for  
the Worst

Sime Denies  
Brunsfeld Deal

Sabah, Sarawak  
Politics Poser

Foreign  
Shareholders  
Pare Down  
Stakes

Genting Feels  
the Heat

Liqua Ousts  
Director

## PROFILE

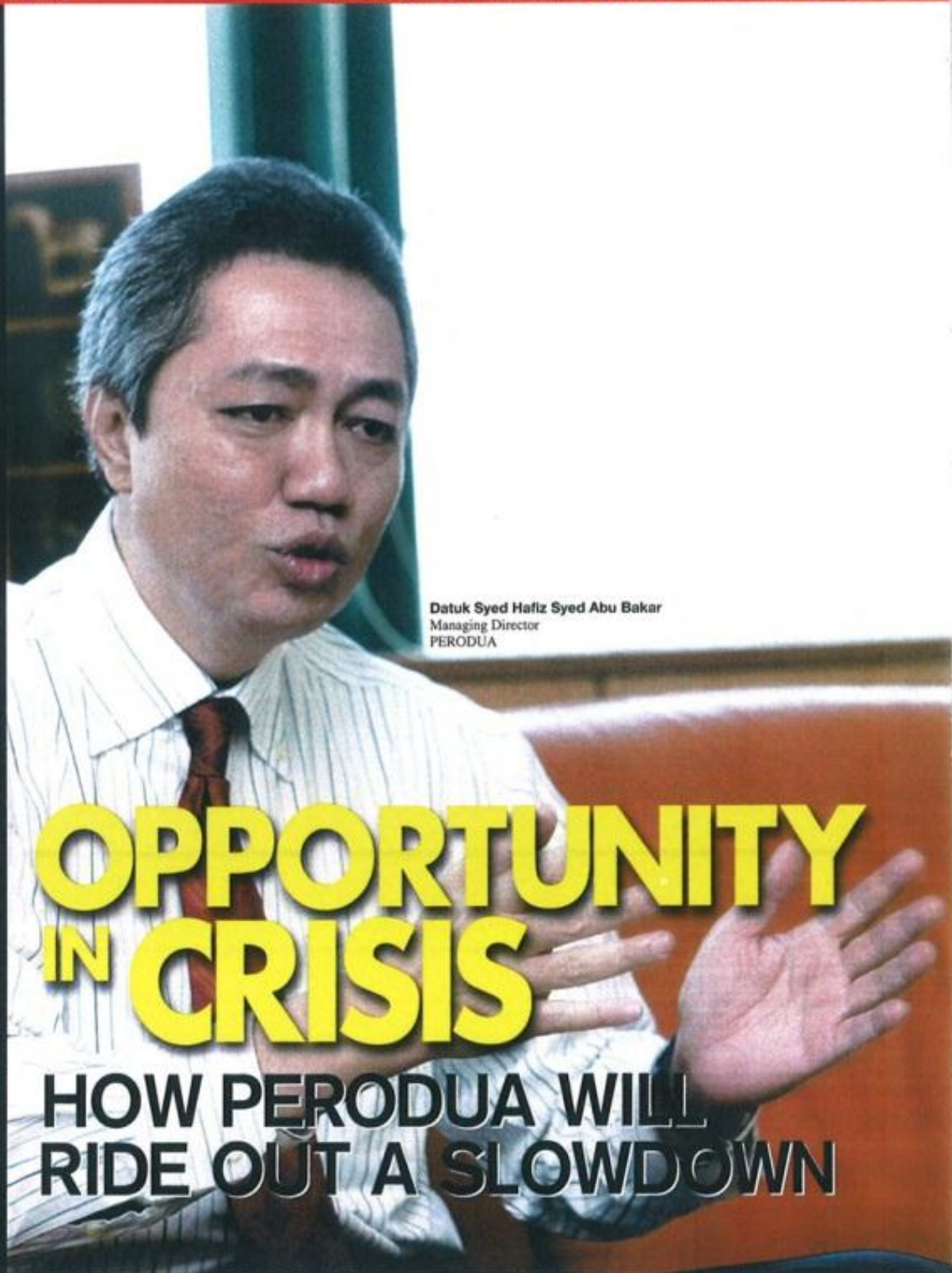


Tunku  
Datuk  
Dr Ismail  
Jewa

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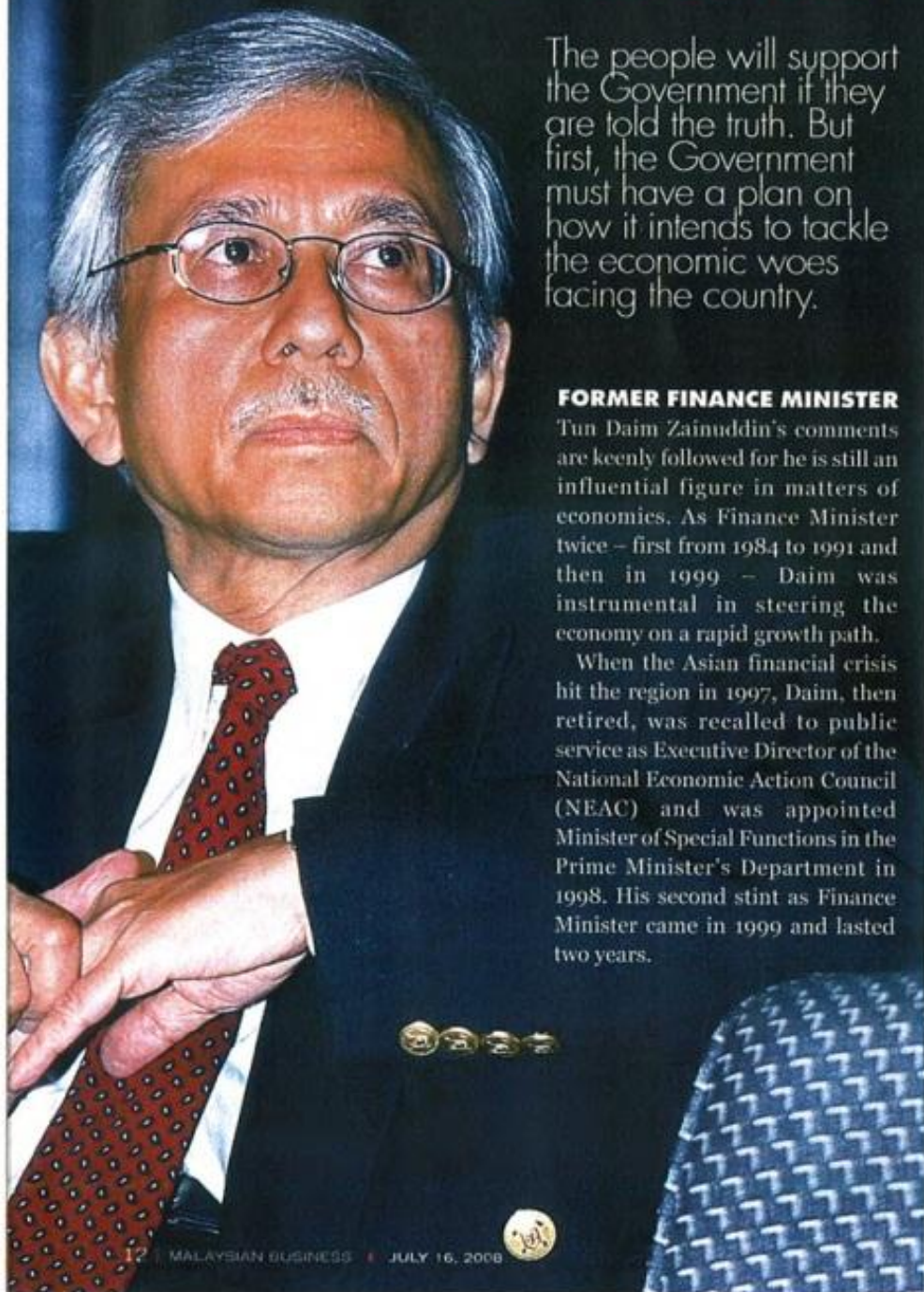


Datuk Syed Hafiz Syed Abu Bakar  
Managing Director  
PERODUA

# OPPORTUNITY IN CRISIS

## HOW PERODUA WILL RIDE OUT A SLOWDOWN

# Tell Them the Facts



The people will support the Government if they are told the truth. But first, the Government must have a plan on how it intends to tackle the economic woes facing the country.

#### FORMER FINANCE MINISTER

Tun Daim Zainuddin's comments are keenly followed for he is still an influential figure in matters of economics. As Finance Minister twice – first from 1984 to 1991 and then in 1999 – Daim was instrumental in steering the economy on a rapid growth path.

When the Asian financial crisis hit the region in 1997, Daim, then retired, was recalled to public service as Executive Director of the National Economic Action Council (NEAC) and was appointed Minister of Special Functions in the Prime Minister's Department in 1998. His second stint as Finance Minister came in 1999 and lasted two years.

Since then Daim, who turns 70 this year, has returned to the private sector, namely the banking industry. Today his banking interests, through ICB Banking Group, have spread far and wide with a presence in Europe, Asia and Africa.

Daim also sits on the Board of Governors of the East-West Center in Hawaii, USA, and is currently serving his third term. He is also on the East-West Center Audit Committee. He was Visiting Scholar at the Harvard Institute of International Development from 1991-1992 and Visiting Fellow at Cambridge University in the United Kingdom from 2002-2003.

With so much on debate over the current economic situation, *Malaysian Business* seeks Daim's views on issues relating to the economy. Excerpts:

#### What is your view of Malaysia's Gross Domestic Product (GDP) prospects for 2008 and beyond?

It is not easy to forecast our GDP for 2008. Prices of oil and other commodities have jumped so much and continue to rise. The Government has to review it from time to time and adjust to the rising costs and inflation.

#### The Government says inflation is less than 4%. Consumers are claiming otherwise. What do you think is the true inflation rate?

The Government says 4%. This depends on what is in the basket. The consumers do the buying. They know that with the same amount of money, they now buy less. So they are the ones affected. I am inclined to side with them. In a recent survey, three billion people, i.e. 42% of the world population, were found to be experiencing double-digit rises in consumer prices.

I read a study which concludes that a family earning RM3,000 can barely make it in Kuala Lumpur. (Government servants' umbrella group) Cuepeps is asking for RM500

cost-of-living allowance (Cola). All these indicate that inflation is a big problem for the *rakyat*.

**Bank Negara maintains there is no need to increase interest rates as the current inflation is cost-push and not demand-pull. Do you agree with this assessment and the policy of the central bank?**

Whether it is cost-push or demand-pull, it does not matter with the *rakyat*. To them, the issue is inflation. People are unhappy about inflation. I understand their anger. My fear is that central banks have not awakened to this severe problem. Monetary policy worldwide has been generally loose and this is the main factor causing fuel and food prices to shoot up.

**US economists are warning about stagflation and a prolonged economic downturn. Some say as long as three years. Do you think our economy is in danger of experiencing stagflation?**

Some economists are already saying that we are experiencing stagflation. Some say the crisis now is similar to the Great Depression of the 1930s. In a depression, excessive debt and speculation go hand in hand until the speculation bubble bursts. The burst leads to a fall in asset prices. This combination will result in a finance and banking sector crisis. Bank losses pile up. They reduce lending to businesses or increase interest rates, discouraging borrowing.

During the Great Depression, prices fell by more than one-third. Businesses lacked cash and cut costs, followed by layoffs. During this depression, the US dollar lost value and the Federal Reserve failed to stop the downward spiral despite having lowered interest rates to virtually zero.

Today, the US has a 13 trillion debt. How it is going to unwind this huge debt is questionable.

According to Standard & Poor's and other rating agencies, corporate defaults will rise ten-fold in 2008-2009 and credit card companies and banks are preparing for billions of dollars in

losses due to consumer defaults. The student loans market has dried up. Auto loans are projected to default at record rates in 2009.

**You had already warned about the effects of the subprime crisis on the Malaysian economy. Will the domestic fuel price increases worsen growth prospects?**

I don't think we have heard the last on the subprime crisis. Many believe banks have not disclosed everything. The increase in fuel prices has also caused other prices to increase. The private sector says things are shutting down. People are cautious and many want to wait and see. If the Government does not spend enough, it will definitely affect growth.

I think western banks will face more problems besides subprime. The next one most likely will be credit default swaps (CDS).

**Is there no way for the Government to reduce fuel subsidies more gradually so as to minimise the impact on the people while still maintaining a reasonably healthy fiscal and monetary environment?**

Before the general election, the Government said it would review the subsidies. It wanted the poor to benefit. Then after the election, it promised a

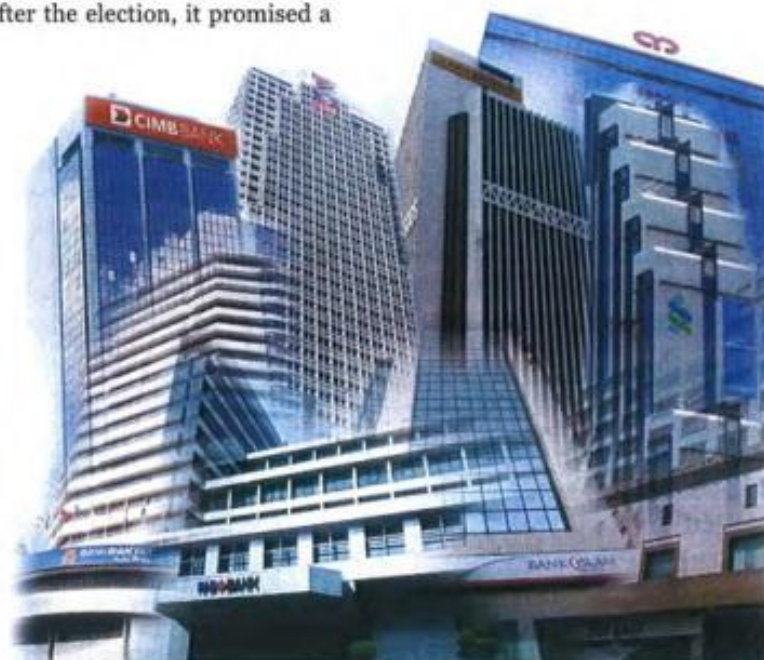
review in August but then came the shocking increase. I am not here to advise the Government. It has its economics team but I would only caution that they should not be too obsessed with the deficit. There must be growth too.

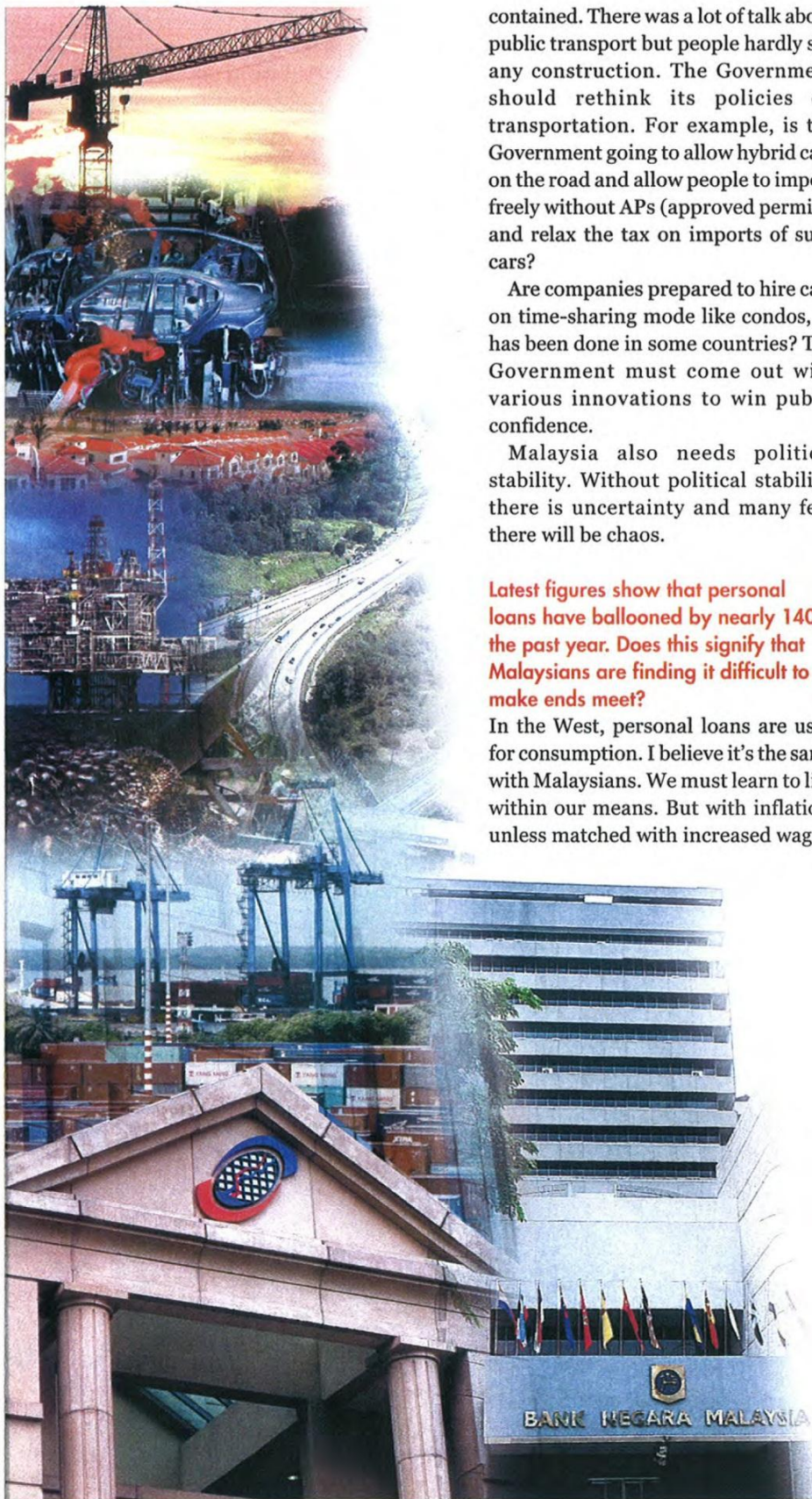
Nobody who understands the costs to the nation objects to the removal of the subsidy. It is a right decision under present circumstances. It is how it was done that is being questioned.

The government communications team should have explained earlier the necessity of removing the subsidy. Let people express their views. Condition their minds and then decide on the best way to implement it. People and companies need to adjust. The shock treatment creates anger. The Opposition, sensing the mood of the people, naturally exploited it.

Populist policies are short-term answers. Asking Petronas to distribute money will make you popular but irresponsible. Don't interfere with Petronas. They are doing a good job. They are re-investing profits overseas for our future. We can question management but, I think, overall they are on the right track.

If public transport in the cities is efficient, the people's anger can be





contained. There was a lot of talk about public transport but people hardly see any construction. The Government should rethink its policies on transportation. For example, is the Government going to allow hybrid cars on the road and allow people to import freely without APs (approved permits) and relax the tax on imports of such cars?

Are companies prepared to hire cars on time-sharing mode like condos, as has been done in some countries? The Government must come out with various innovations to win public confidence.

Malaysia also needs political stability. Without political stability, there is uncertainty and many fear there will be chaos.

**Latest figures show that personal loans have ballooned by nearly 140% the past year. Does this signify that Malaysians are finding it difficult to make ends meet?**

In the West, personal loans are used for consumption. I believe it's the same with Malaysians. We must learn to live within our means. But with inflation, unless matched with increased wages,

it is difficult to make ends meet.

**Do you see this contributing towards the worsening, once again, of the non-performing loan portfolios of banks and other lending institutions?**

As I mentioned earlier, in the US and Europe this is already happening.

**Bursa Malaysia was the worst performer in the Asean region between January and May, with traded values declining by more than 30% compared with last year. What are the prospects for our stock market and how can we make it more attractive to foreign funds?**

The current mood is bearish. People want to keep cash. In the near term, it is bad. Foreigners are selling. The Government must not say the market is okay when it obviously isn't; and not try to influence people to enter the market. Even markets in China and India are down.

I don't want to advise on how the market can be more attractive. We should not be advising people. Let people be free to do their investment. It is their money and it is a free market.

At present, there is a perception that the Government is weak and politically not stable, and people lack confidence in it. They don't see a clear direction. They want a strong leadership. They want to see where the Government is heading. They are confused now.

The KLCI (Kuala Lumpur Composite Index) is forecast to drop further. Investors are advised to avoid sectors involved in consumption, i.e. property, autos, construction and banks. We have this situation now.

**Could something be done to improve the value of the ringgit, which is said to be under-valued, and what likely effects can we expect from a stronger ringgit?**

The current environment does not help the ringgit. A strong ringgit reduces the cost of imports. I think we rushed to remove the peg. Retaining the peg gives us flexibility. Before the 1997/98 crisis, we managed very well with about

RM2.50 to the dollar. A strong ringgit in my opinion will not harm the economy. We just need to be efficient.

**Do you think that Malaysia is sufficiently competitive to attract more foreign direct investment (FDI)?**

To be competitive, we also have to address the issues of corruption, the judiciary, security and political stability. The Government claims it is transparent and accountable but policies must be clear and unambiguous. They must give the *rakyat* and foreigners confidence. No flip-flops. Be consistent.

Forget about labour intensive industries. We can't compete in this area. The present political environment does not encourage FDI.

**What is your assessment of the five major development corridors and their ability to attract new capital, both local and foreign?**

The Government says the corridors are attracting investors. They have the figures, I don't, so I can't say for sure.

**What do you reckon is the NPL of the local financial system?**

I don't intend to guess.

**How do you see the NPL situation now compared to 1997/98?**

In 1997/98, it was a financial crisis. It involved South Korea, Thailand, Indonesia and Malaysia. The currencies were devalued and stock markets tumbled. This gave opportunities to foreigners, especially the American private sector, to take over banks and corporations cheap because the three countries (except Malaysia) were under the IMF (International Monetary Fund). There was also no recession in the world.

Today, there is a slowdown in America and Europe. Stock markets worldwide are down. Lay-offs are on the increase. Banks are in trouble. Prices of oil and commodities are higher accompanied by inflation. The situation does not look good at all. The Government must alert the people

about this grim situation to prepare them for the worst.

In the first few years, the Government was obsessed with the deficit. Many projects were cancelled. Now it is expensive to revive the projects as construction costs have gone up and in the Mid-Term Review of the Ninth Malaysia Plan, the Government has to increase allocation by RM30 billion. Can you imagine then, the cost escalation to the private sector and the *rakyat*? The Government failed to anticipate cost escalation. Since the rise in fuel prices, almost everything has gone up.

Property prices skyrocketed after the Government removed the real property gains tax. The rationale for this tax was not to collect revenue but to curb speculation (we blame speculators for the high price of oil). Once the tax was removed, land around the KLCC doubled and tripled in price within a short space of time. Foreigners with strong currencies moved in. Is that what we want?

Banks financed these purchases. See what happened in Spain, the US and UK. It was the same in Japan in the 90s. It was the same here in the late 90s. Have we learnt anything from the past? Foreclosures will cause huge losses to banks.

The Government must come up with solutions if the oil price continues to rise as it looks like reaching US\$150 a barrel soon. What if as predicted, it goes to US\$200? What does the Government plan to do? Subsidy is out of the question. Any alternatives? Any research to produce fuel from other sources?

People want to know whether the Government has options. They want to know if the Government is on top of these problems. If they know, then they will have faith in the Government and continue to support it.

Prices of rice and food have risen so much. In 1997, prices of food remained stable. While the 1997/98 crisis was bad, I can't say if this time it is not worse for the *rakyat*.

In 1998, we did research on plants

like Knaff and encouraged the *rakyat* to find new sources of income. Malaysia should take the chance and invest overseas to secure the food and commodities that we need so that we can be assured of supply. We must use our reserves wisely but we must also look outside the country. The Arabs, Chinese and Indians are already doing this and quite successfully too.

For example, there is a decline in rubber production and US companies are turning to Russian dandelion. We should also plant *Jatropha*, an alternative source of biofuel which does not compete with the food supply, as in the case of corn.

The Government has to think ahead and plan for the future. A crisis is a challenging time. It gives opportunity to the Government to plan for the good of the *rakyat*. They are waiting to see how the Government responds to this difficult time.

In 1997/98 the Government established the NEAC (National Economic Action Council). It prepared an Action Plan after consulting 250 groups and individuals, and we implemented the recommendations. The management of the crisis was not on an ad hoc basis. We had to get people including the Opposition parties involved, to get feedback. We needed the people's support to implement the recovery plans.

I think the Government should tell people the facts. Share with them the figures you have. Prepare for the worst. They will support the Government if they are told the truth. But the Government must have a plan on how to handle this tough problem.

Once the Government has got the Action Plan, implement it and stick to it. No flip-flops.

In 1998 when we faced the financial crisis, we took steps to explain to the people the problems and the solutions that we had. The people understood and stood by the Government and gave us a chance. Their patience was rewarded with stability and a return to economic growth. Malaysians are a fair-minded lot. 