



BOOK REVIEW

ECONOMIC CRISIS IN MALAYSIA: CAUSES, IMPLICATIONS AND POLICY PRESCRIPTIONS

By Samuel Bassey Okposin and Cheng Ming Yu, Kelana Jaya, Selangor Darul Ehsan: Pelanduk Publications, 2000, ISBN 967 978 693 5, 204 pp.

When the economic crisis hit Malaysia in 1997, the government quickly pointed a finger at the currency speculators, alleging that they are anti-Asian colonialists out to destroy the economy and recolonize the people. A tit for tat exchange of responses ensued with the global currency regime claiming that the economic crisis of 1997 was self-inflicted and not the work of currency speculators (Phan, 1999). Okposin and Cheng Ming Yu attempt to clear the air. The book under review attempts to explain the causes, implications and policy prescriptions not only of the 1997 currency crisis but all the five crises Malaysia has faced since independence in 1957. They include: (i) “the early commodity crisis” during 1956-72, (ii) “the first oil crisis” of 1973-74, (iii) “the second commodity/oil crisis” of 1980-81, (iv) “the electronic/third commodity crisis” of 1985-86, and finally (v) “the financial and currency crisis” of 1997-98 (p. 11).

According to the authors, each of these crises is different in magnitude and implications. The causes for the crises are also different and, therefore, apparently call for customized approaches for their solutions. Hence, there is no ready or textbook answer to these crises. The implications have always been the same but in varying degrees in terms of economic contraction, unemployment, loss of income, increased poverty, economic uncertainty and socio-political instability. However, the authors are apparently not very critical of the policy prescriptions, possibly due to the fact that at the time they wrote the book, they were both working in the Malaysian corporate sector, known

to be patronized by tycoons and, who are perhaps, close to policy-makers.

Including the introduction and the concluding chapter, the book has ten chapters. The authors, in the second chapter (p. 27), examine the disputing views of the term “crisis” while in the third one (p. 59) looks at the early economic crisis and identifies two possible causes. In the next two chapters, the impacts of the first, second and third oil crises between 1973 and 1999 are discussed. In the remaining chapters, the authors take up issues of implications resulting from the five major crises Malaysia has gone through. Since it is always important to look at the social cost of the crises, therefore, the authors have investigated the specific effect of these crises on inflation and employment in Malaysia. Surprisingly, the latest crisis, namely the currency crisis of 1997, which was the hardest so far, had the least impact as concluded by the authors in chapter nine.

The term “crisis” is not new in the 21st century. It existed in different forms during different times. Referring to the controversial definitions of the term “crisis” so far, the authors confine themselves to an analysis of the causes of economic crises. According to the theoretical framework of market economy, crises are cyclical and inevitable. There are three philosophical questions; i.e., (i) why do markets always experience a turning point when they have reached a certain level of development, (ii) why do markets fail to sustain equilibrium of demand and supply, and (iii) how do economists understand and explain the crises in the past and at present? (p. 37). Solutions offered to these questions never reach a high level of conviction or satisfaction. It is either because they are subjected to generalizations or they are too imaginative and thus cross the limit of practicability, according to the authors.

The implication of the crises on inflation in Malaysia is noteworthy, because the impact on inflation and unemployment together inflict a heavy social cost for the country. If unchecked or wrongly addressed by the policy-makers, crises may create problems of social instability, which can lead to political crisis.

During the last decade, more researchers have devoted their time to investigate the relationship between inflation and a country’s economic growth. Different economic models were used to study the relationships under different time periods and in different countries.

The inflationary experiences in the Malaysian economy can be divided into several time periods consistent with the phases of economic crises since independence, out of which two crises hit the country hard in the 1980s and in 1997 during the same policy-makers' regime. However, according to the authors, no precise relationship has been observed between inflation rates and GDP growth rates in Malaysia (pp. 140-1).

According to Okposin and Cheng, the country's economy, which is highly volatile and sensitive to external changes due to her being a relatively open market, was saved from devastation during the crises by the introduction heavy-handed control measures to regulate market forces. The authorities suspended the market determination of interest rates and pegged the deposit rates and base lending rate during 1985-87 (p. 148). Secondly, during the recent crisis in 1997, the government effectively pegged the nation's currency to the US dollar at US\$1 = RM3.80 and hence the inflation rate has been contained (p. 150).

Unemployment in any country is a social stigma. The unemployed present a social and political burden. Countries reporting a high rate of unemployment are also politically unstable due to street demonstrations and lawlessness among the retrenched workers. Citizens' perceptions and attitudes may also be a contributing factor, but economic crisis is the source of this problem which adds fuel to the fire.

Malaysia, without a doubt, has grown economically since independence. During the economic growth of the country structural changes have also taken place in terms of employment. This change occurred due to the shift from heavy reliance on the agricultural sector to the industrial sector over time. Now the country is pushing for the K-economy through the Multimedia Super Corridor (MSC) project, which emphasizes the development of information and multimedia technology. Continuous structural change demands a change in employment patterns in Malaysia. Skills needed to cope with the changed pattern in employment will determine educational and training reform in the country.

Greater emphasis on the manufacturing sector due to export-driven demand has led the country to heightened problems in the tight labor market. Sectors such as agriculture, plantations, forestry, fisheries, mining, etc. faced acute shortages of manpower. Locals did not seek employment in primary industries, forcing employers to depend on

foreign workers from neighboring countries.

According to the authors, prior to the latest financial crisis of 1997-98, the Malaysian economy was faced with an increasingly severe labor shortage. Unemployment was marginalized to such an extent that the exigent labor demand caused a labor shortfall, which was ameliorated by the presence of 1.14 million registered migrant workers. The 1990s marked a turning point in terms of employment, changing Malaysia from a labor surplus country to one of the deficit-marked nations in newly industrializing economies of the South East Asian nations (p. 157).

The authors concluded:

The recent financial crisis imposes the greatest social effects on the country as the employment market was badly affected. Fortunately, the government has undertaken prudent steps and measures to overcome this historical event. As a result, the employment situation improved gradually to a better position in 1999, following the revival of economic activities, especially in the public sector (p. 158).

Okposin and Cheng are positive thinkers and draw the conclusion that Malaysia, during all five economic crises has concentrated on policy prescriptions for stabilization and this has so far served her needs well. The macroeconomic measures taken so far have had considerable success in balancing the fiscal and monetary policies and sustaining economic growth and public welfare.

The authors rightly conclude that Malaysia learned three important lessons out of the exercise in managing the crises. First, they recognized the importance of the role of the private sector. The private sector can be an efficient engine of growth provided appropriate incentives are given. Private sector initiatives should not be hampered by over-regulation. Most important of all is confidence. The confidence of the private sector can be enhanced through greater certainty, consistency and transparency of government policies.

Secondly, there is a need to reduce fiscal deficits and to control Non-financial Public Enterprises (NFPEs). Continuous periods of large fiscal deficits are unsustainable. The burden of servicing the accumulated debt is a drag on the budget. Furthermore, the mode of the country's liability will be exposed to exchange-rate movements, which

of late are becoming more volatile. Financing deficit from domestic sources may also lead to inflation and the crowding-out of the private sector.

Lastly, Malaysia recognized the importance of continued coordination of fiscal and monetary policies. This is important to bring about optimum if not maximum impact on the economy. In both experiences – overcoming recession as well as moderating inflationary pressures – Malaysia has effectively coordinated both monetary and fiscal policies.

The book does not give any indication or suggestion on how future economic crises, if any, should be handled by the macroeconomic planners. Perhaps it is because the policy prescriptions for a crisis have to be formulated on a case by case basis, and thus need a customized approach on the part of the government which is something beyond the scope of this book.

The book is full of empirical and analytical details, and the concepts presented seem to have been carefully developed, explored and analyzed except for the part on the continuing search for ways to improve corporate governance in Malaysia. The book is indeed a good reference material for research purposes. It may also be a recommended reading for students of courses on the Malaysian Economy.

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