The gods smile on Malaysia

By Tan Lee Hock

MALAYSIA'S three-year economic boom rolls on despite the Gulf crisis. Predictably, most analysts are billing Malaysia as the investment darling for 1991, despite the strong claims of Taiwan, Thailand and Indonesia.

Malaysia enters 1991 with plenty of cash in the till,a relatively small external debt, a renewed national political mandate for Dr Mahathir Mohamad, an an investment environment which is proving extremely attractive to foreign and domestic investors.

Bullish is the word most frequently used by in vestors and analysts in evaluatring the future prospects of this nation of 18 million people in a land area of 330,000 square kilometres.

It is a sentiment enthusiastically shared by the World Bank . A recent World Bank report on developing countries notes that Malaysia's fine economic performance is largely due to prudent fiscal management.Moreover, and this is where the country receives high marks, Malaysia's record of loan payment and PREPAYMENT is exemplary.

The Malaysian Central Bank, Bank Negara, offers the proof. Its 1989 annual report states: "An important factor which contributed to a better debet position was the successful restructuring of the Federal budget, which helped to restrain the growth of the overall public sector deficit. Another factor was the strateg to reduce external borrowing in favour of private direct foreign investment and loan refinancing through borrowing from domestic sources at lower cost.

"As a result , net external borrowing remained negative for the third consecutive year with total net payments of $3.1 billion in 1989 , $6 billion in 1988 and 3,9 billion in 1987. The outflows reflected the comnbined effects of lower recourse to external financing and the selective prepayment of the more expensive external loans. In 1989, the nation refinanced and prepaid $4.2 billion of loans, in addition to $6 billion in 1988. The total amount prepaid over a three-year period-1987-1989-by both the public and private sectors,was13.6 billion . As a result, the nation's outstanding external debt fell by 10.4% to $41.8 billion at the end of 1989." Today, Malaysia's external debt to GNP ratio has fallen to 43% from a high of 755 in 1986.

Taking a look at the regional economies, Taiwan and Thailand, as net oil importers, will suffer because of the Gulf crisis. Even though Indonesia is Asia's only OPEC member, it has still to iron out structural deficiencies. Inflation, for instance,is running at almost 10% annually.

No wonder, fund managers and other portfolio investors are increasingly eyeing Malaysia as an investment destination. Let's look at the macro picture first.

Real GDP growth easily hit 8% in 1991, which should make it Asia's fastest running economy. It should post 9% this year, possibly even 10%, its best since 1976. Inflation is still a manageable 5%. And , best of all, being a net oil exporter, Malauysia can expect windfall profits from oil. This will amount to a cool M$ 11 billion this year (up a hefty 48% over the previous year) and M$14 billion in 1991 assuming oil stays at US$24 a barrel. Every US$1 increment in the price of a barrel of oil, adds a significant US$160 million to Malaysia's coffers.

Even though Malaysia's economy is one of the most open in Southeast Asia, and thus vulnerable toa recession should there be one next year, it is one of the most diversified as well.

In terms of political stability, no less, malaysia is in a strong position Prime Minister Mahathir Mohamad swept the board in last October's election, despite a concerted effort by the opposition, ensuringt another five years of continuity.

Next to Singapore, Malaysia has Southeast Asia's best infrastructure.Its well-trained labour force is still affordable while land is in abundant supply. Taxes, too, are reasonable .

Not surprisingly, it has been a favoured investment destination. Since 1988 and thanks to the country's liberal foreign investment climate (foreigners can own 100% of proerty), Malaysia has been the recipient o fhigh capital flows from Japan and more recently, Taiwan. Typically, in the first eight months of 1990 approved investment totalled M$20.6 billion . The foreign component was M$12.8 billion, or 62%, and well exceeds of total approved investments in 1989.

While capital outflows from Japan will probably slow next year given the present crisis, it seems certain that Malaysia will continue to remain a beneficiary in the foreseeable future. Recently strong domestic private sector investment has energed.

A weak currency has also contrbuted to Malayia's attraction as an investment destination .

Taking a medium term view, analysts say Malaysia's economic boom will be maintained for three reasons. First, the foreign investment inflows.

Second, healthy consumer demand is fuelling the engine of growth. This has helped to mitigate the impact if slower external demand. Sales of motor vehicles, for instance, rose by 67% in the first half to 75,715 up from 45,310 units last year. The forecast for 1990 is for vehicle sales to go beyond the record 109,000 units recorded six years ago during the last boom.

Third, rising public sector outlays. A number of big prijects are mow underway, including the M$3.5 billion North-South highway.

Even so, there is some red ink on the report card. The external acount is beginning to weaken in view os eapidly rising imports. The trade surplus shrank 87% in the first six months to M$624 million, but higher oil prices will keep the lid down.This year, it should narrow to about M$4-M$5 billion from M$10.2 billion in 1989. Next year, it should improve to M$8 billion.

Beyond 1992, when the present phase if industrialization is completed, exports should outperform imports. The current account balance, which was briefly in the black in 1987 and 1988, turned into a deficit of M$1.5 billion.

Malaysia's fine economic performance is larely attributable to a prudent policy, aimed at reducing government debt and retraining government expenditure.At the same time, it embarked on a well-planned programme, initiated after adeep recession five years ago to restructure and diversify the economy.

Today, manufacturing activities account for 26% of Gross Domestic Product (GDP), while agriculture contributes 20%. The vastly expanded manufacturing sector should continue to generate demand for locally produced goods amd supporting services.

Still, there is a spanner that could gum up the works . It could come in the from of a drastically revised New Economic Policy (NEP) which ends this year. The NEP first introduced in 1970, guarantees a 30% share of the economic cake for the politically dominant Malays, the bumiputras.

There have been calls to in crease their share to 51%. The economy is strong and because of the need to maintain its rapid growth (as well as retain the confidece of the Chinese), it is highly unlikely that there will be any major policy reversals. At a time whan credit crunch is looming worldwide g worldwide, it seems sensible maintain the status quo to ensure that foreign investors are not spooked.

By arrangement with Executive.

The trappings of success – consumer goods, construction projects and streets choked with new cars – are easily visible, especially in Kuala Lumpur

War-torn Maputo Gets a Touch of the Glitzy

The rundown capital of war-ravaged Mozambique is coming back to life. As hammers and drills restore the hotels, restaurants and clubs, the city is beginning to get back some of its old reputation for good food and entertainment. Mozambique, once popular with tourists, particularly from South Africa, is still in a fragile state, moving towards multi-party democracy and peace with the Renamo rebel movement. But a Gemini News Service correspondent in Johannesburg finds Maputo already has a lot to offer. By John Perlman

MAPUTO, capital of civil-war-torn Mozambique, is in the midst of a slow stumble back from the brink. One sign of that is the sharply-dressed traffic flouncing in and out of the glitzy, laser-lit nightclubs.

Another is the sound of pneumatic drills and taptapping hammers that resounds around Maputo's five-star hotel, the Polana. A third is the shop windows full of cameras, compact discs and clothes at skyhigh prices.

Of course, Maputo's highlife can be fabulous. Prawns charcoal-grilled at the Polana, an all-night shuffle at the wonderful Club Mini Golf.

The Polana is an extraordinarily graceful old dump — whitish walls, gracious gardens, an awesome view of a startlingly beautiful bay.

The enormous swimming pool is currently empty, though, apart from a few workers who sit on the steps taking occasional smacks with their hammers at the fading green wall tiles, then get up to push the debris around with their brooms.

The little thatched bar in the garden charges prices that make buying a Coke a budgetary issue rather than a matter of taste and the tennis court is missing some crucial lines for those who like to hit their foreheads deep.

But each morning you wake to a feast of a breakfast, with coffee hot and strong. And when it comes to dinner, don't be fooled by the buffet — it's straight from the Appetites Anonymous cookbook.

The whole place is being renovated — same shell, interiors a mix of pastels and modern. Modern is certainly what Maputo's fanciest night clubs are. A few kilometres up the Costa da Sol from the Polana is the Club Mini club.

If you arrive to early you get to sit in what feels like a big, empty, overdecorated restaurant which serves overpriced underspiced food. But suddenly you look up from fourth beer and across at your watch — it's just gone 11.30 and the place is getting packed.

The crowd is a mix of sleek young Maputans at the easy end of their 20s, and tables full of butter-bodied Igors, Olafs and Gunthers, one hand on their wallets, the other drifting incessantly between the back of the next chair and the bare knee of the young girl sitting on it.

The light show is easy on the eyes, the music hits you in the hips not the feet. That's not so at Club Zambi across the bay. Zambi is smaller, packed in close. The music too is altogether more frantic — Black Box, Snap and MC Hammer — and it's hurled in your face at ear-jangling volume.

Pardon ? The time ? Gosh, 4.30 already — time to start ambling home. Some of the city is asleep now, but large chunks of its aren't. One place that's full is called Feira, a sort of park used for the city's trade fairs and dotted with little restaurants and bars.

By day it's a lovely languid spot to drink beer and pick at some peri-peri chicken. At night, people gather round bars hammered together from rough-hewn planks, talk and laugh and dance on the spot where they are standing, and cheerily drink in the dawn.

There's another cluster of all-night activity quite like it 20 minutes walk across town, just near the South African embassy. The bars there are more like shacks than buildings, a huddle-together of wooden lean-tos, each one with a ghetto blaster blaring out a different sound track.

The crowd there is a little younger, a little louder, a little drunker.

Try to remember where these places are as you try to get some sleep. Or, better still, try to make some Mozambican friends and get them to take you out of the city of Maxaquene.

This is Maputo's "township" and it looks like a township, except on every street there are trees, tropical and tall. Here the party starts in mid-afternoon, just as the sun starts to soften at the edges.

If you are staring at your last few notes save them for morning or afternoon coffee at the Continental near the docks or at any one of the other pavement cafes in Maputo. OK, the dark steaming stuff in your cup is probably instant coffee, but who cares when you can watch another world drift slowly by?

And you can always make up for the taste gap with a pastelleria de nata, those custard-filled cakes that remain the one unquestionable benefit from the colonial past. Natas are no more than two large mouthfuls, but they are far too rich to eat more than one — something you only find out once you've eaten three or four.

And when you've finally spent every cent walk the city. The beaches are overgrown and dirty, the streets are potholed and littered and the buildings are crying out for paint.

But a gap between two apartment blocks will suddenly yield a sharp blue view of the sea. Two blocks off a main road and you're in another place — trees joining branches to cover the street, quiet old houses covered in flowers and vines.

Make sure you're at a busy intersection during rush hour. Poised on a box in the middle will be a woman in a black uniform and a white peaked cap. It's not just a matter of waving on the one row of rattling tin cans while keeping a beady eye on the rest.

In reality she is just orchestrating the traffic flow. But with those eloquent sweeps of the arm and the impassioned plucking of her fingers, she could easily be leading the London Philharmonic through Beethoven's Ninth.

But at the tennis club in the grounds, you can see young Mozambicans trading well-hit top-spin shots. And on Sundays, wedding parties gather to take photos and figure out how a video camera works.

Each group seems to have their own song that they sing, complete with little stuttering dance steps. And the funny thing is, every single one of the married couples look like they're sitting in a dentist's waiting room. Beats me.

— GEMINI NEWS

The Basis for Growth

ONE of Singapore's largest banks—the Oversea-Chinese Banking Corporation (OCBC)—says "the Malaysian economy is seeing one of its best growth years, with an impressive 10.3% growth in the first half 1990 compared with 8.0% in the first half 1989." The following article has been excerpted from The Malaysian Economy, Update & Outlook, a report prepared last month by OCBC's Economics Unit.

Accounting for both the positive impact of higher oil prices but the negative of slower growth in external demand, a 9.5% growth is projected for this year, 8.5% in 1991. These optimistic projections compare with respective growths of 8.7% and 8.3% expected for Thailand and Indonesia in 1990."

The manufacturing and consirution sectors are the leading growth sectors. Despite the slowdown in growth in key industrial economies, export-oriented manufacturing industries recorded double-digit growth led by the dominant electronics industry. In combination with improved domestic sales, the manufacturing sector grew 16% in the first half year.

In the construction sector, stronger growth arose from a higher level of residential construction and the phased implementation of several large civil engineering and public infrastructure projects eg. the North-South Highway, Penisular Gas Utilization and rural water supply.

The higher 9.6% growth in the services sector in the first half, in part reflect increased tourist receipts following a record 3.68 million tourist arrivals, a growth of 67% form year ago level. Hotel occupancy rose above 80% form 68% in 1989.

The agriculture sector grew a lower 4.3% in the second quarter, as prices of key non-oil commodities like rubber, palm oil and tin, declined a year-on-year 21%, 28% and 31% respectively to 228 sent/kg, M$678.8/ ton and M$17.09/Kg, in the first half of the year. High stock levels and sluggish demand, suggest no nearterm significant recovery.

Increased oil output in the second quarter enabled the mining sector to grow a stronger 4.9%. With the petroleum sector currently producing at or near maximum compacity of 650,000 bpd since the, August 2, Gulf crisis, growth in the mining sector will improved further in the second half of the year. About 460,000 bpd of the total oil output are destined for overseas marketes, of which 65% are exproted to Singapore, South Korea and Japan. In the first nine months of this year, crude oil price per barrel averaged US$22, implying and average oil price US$25-28 a barrel for the full year of 1990.

Higher domestic demand growth, continue to help mitigate the impact of slower external demand.

Investor confidence in the economy's growth potential is reflected in the record 69% surge in total investment approvals to M$20.6 billion (US$7.6 billion) in the first eight months of this year, compared with M$12.2 billion (Us$4.5 billion) for the whole of 1989.

Pending details of the successive New Economic Plan in 1991 onwards, two factors should be borne in mind :

A reversal in the government's pro-investment slant in unlikely;

Basic incentives for foreign investors like pioneer status, investment tax allowance, will be retained. Rather, the more sensitive issues like foreign equity ownership, with up to 100% ownership allowed in certain cases, will face some tightening in ruling.

Overall, the policy changes to be enacted, are unlikely to seriously affect the favourable returns on investment expected from the economy's good growth potential.

A buoyant economy and particularly, strong industrial demand for capital goods as a result of the coming-on-stream of investments approved in the 1987-1989 period, have caused a continued norrowing in the trade surplus, Import growth at 28% in Jan-Jul 90 period, doubled that of exports at 13%. As a result, the trade deficit shrank 87% to M$624 million (US$230 million).

Capital equipment and manufactured goods account for more than 65% of imports. A more dependable and diverisified export base is reflected in the dominance of manufacturers which account for more than 50% of total exports. This will help shield the economy from a previously volatile revenue situation, where enrnings growth was exposed to the fluctuations of international commodity prices.

Battle of Wills Over Hongkong's New Airport

The largest infrastructural project in Hongkong's history remains stalled because China's doubts about it have still not been fully allayed. by Nicholas Dutt

SOME travellers cannot believe their eyes when they first land at Hongkong's airport. As their airplane banks steeply into its final approach, they seem to be landing right in the middle of a busy harbour, and only yards away from high-rise buildings containing tens of thousands of people.

The appearance is the reality. The airport was built, and remains, on a "finger" jetty in densely urbanised kowloon. It is almost as if one landed in London's Trafalgar Square, or New York's Central Park.

More than ten years ago it became clear that not only did Hongkong need a much bigger airport, but that it would have to be re-sited well clear of the colony's incredibly crowded city area. And yet, today, not a single bucket of cement has been poured.

A new airport exists, but only amid piles of engineers' drawings and reams of reports. For a place like Hongkong, which has a reputation for swift decisions and where projects come in before target and under budget, this is shameful. But there are reasons.

Though tourism and trade both swelled in the 1970s and 1980s, a shadow came over the longer-term planning in Hongkong — the year 1997, when the lease runs out for a large part of the territory. This problem was solved in the 1984 agreement between Britain and China. Under this, the whole territory returns to China, but as a "Special Administrative Region," a kind of capitalist enclave.

But ever since 1984, Hongkong administrations have felt somewhat hesitant about future developments. Starting large new projects, which commit the future special region's government only a few years away, has been a matter of some delicacy.

This question has arisen more sharply every year. How much shall today's government consult with tomorrow's ? It was over the airport plans that matters came to an unpleasant juncture this year.

The territory's plans include more than an airport. They comprise far-reaching — and very expensive — expansions of the harbour facilities, big networks of new roads, tunnels and bridges, massive coastal reclamations and the levelling of hills, and probably a new railway.

It would be Hongkong's biggest ever infrastructural project. And in the mind of the government in Beijing, some worrying queries have been expressed :

- Is the cost going to run down Hongkong's financial reserves — in other words, is the territory going to be handed over in a state of insolvency?
- Does the territory really need such a large and expensive airport, plus all that accompanying construction?
- Is the present government giving China enough warning about these kinds of plan?

Among some of the Hongkong people, China's queries raise an alarm. Under the 1984 pact, Beijing had promised not to "interfere" with the free-enterprise economy for at least 50 years — or, at least, that is how the pact is interpreted by a vocal group of people there.

Beijing has now insisted that Britain deal with the matter. But Britain has been unwilling to quarrel with China. This leaves the Hongkong government (which is still legally a small colonial unit, under a royal-appointed governor) feeling neglected by its old masters and bullied by its new masters-to-be.

Recently Beijing tried to calm nerves all round. It told a visiting trade delegation that China wished Hongkong to remain a free port, and a trade and financial centre with low taxation. It added that China supported the idea of a new cost-effective, efficient airport in Hongkong which would not become a burden to the future Special Administrative Region.

But the airport project remains in limbo. Early preparatory work has been postponed.

Perhaps the problem will be solved by the march of events elsewhere. Maybe Hongkong will never build that airport — at least, not precisely where it has been intended (on the north of the largest outlying island) and not exactly in that shape.

A new airport is going to be built across the border inside China, just north-west of Hongkong. Just as relevantly, Macau has already begun building its own full-scale international airport, and that will be only a 30-minute helicopter ride to Hongkong's west.

Massive road, rail and power development is taking place all along China's south coast, from the island province of Hainan to Fujian province off which lies Taiwan. China's trade through Hongkong and Macau is rising as much as 30 to 40 per cent a year.

China's foreign reserves have soared, thanks to this trade surge and to tourism growth all along this great stretch of territories. Yes, Hongkong will need more air facilities — but not necessarily within the old 1890's boundaries.

In a decade or so, the Guangdong and Hainan provinces, plus two large free-trade zones in Shenzhen and Zhuhai, plus Macau and Hongkong, will together form a new economic giant. Then, perhaps, people will wonder why they delayed the plans and quarrelled about them back in 1991 ! — *Depthnews*

Gene Switch Adds up to a Woollier Sheep

New Zealand scientists have produced their first "gene transfer" lamb and raised hopes of heavier fleece clips in future. by Ian McCrone

SCIENTISTS at Lincoln University have created the first "gene transfer" sheep aimed at increasing New Zealand's national wool clip by as much as 20 per cent.

The sheep — or rather, a Coopworth lamb — is no different in appearance to any of its fellows. But it is the successful result of the first stage of a gene transfer experiment.

The process involves taking eggs from ewes within hours of them being fertilised and injecting a gene which is known to work on the wool follicle. The genetically-engineered embryos are then returned from the laboratory to recipient ewes and the gestation process resumes.

If things turn out as expected, the addition of the "woolly" gene will lead to sheep which will produce a fleece weight up to one-fifth heavier than an ordinary sheep.

Lincoln University, 20 kilometres from the South island city of Christchurch, has long been New Zealand's premier agricultural college, with a strong interest in wool. Staff from the departments of microbiology, biochemistry and veterinary science teamed up under a former World Health Organisation consultant, Professor David Bullock, to tackle the task.

The research program is the first of its kind in New Zealand, although similar successful experiments have been conducted in several other countries.

It began two years ago after tests had shown the gene could increase the growth of hair follicles in mice. Research switched sheep because of the value of the national wool clip to New Zealand's economy.

Professor Bullock says the work has much wider implications because other genes, once identified, could be transferred with the aim of modifying hereditary traits such as growth rates, reproductive capacity and the amount of carcase fat carried. There is also the possibility of making flocks more resistant to diseases like facial eczema and footrot.

But perhaps the biggest potential "plus" for genetic engineering with animals is the prospect of being able to bring about, in two or three years, changes which would take half-a-century of selective breeding regimes.

Meanwhile, work goes on at government agriculture research stations near Dunedin and Invercargill on the isolation of genes which govern prolificacy in sheep. Last year a team under George Davis isolated a gene they called Inverdale which enables 100 Romney ewes to produce 60 to 70 more lambs a season than standard strains of the breed.

Some years earlier, scientists located a special gene in the Australian Booroola breed which made these animals even more prolific.

While it has still to be proved that increased ovulation rates indicate a genetically superior animal, Mr Davis is confident that before long even more potent new genes will be discovered. He sees the possibility of sheep breeders being able to choose from a range of "designer" prolificacy genes to get the optimum numbers of lambs their pastures can carry.

Other related research at the University of Otago in Dunedin is aimed at seeking a "marker" in an animal's blood which can easily identify sheep carrying special genes and cut out the need for progeny testing. Another trait which can be inherited is wool fibre strength. This is the subject of a study being done at Lincoln University by Ministry of Agriculture and Wool Research Organisation of New Zealand (WRONZ) staff.

Advances in the New Zealand wool industry lie in the early stages of processing, according to the deputy-director of WRONZ, Dr. Garth Carnaby. He says the country's "downstream" products like spinning and worsted fabric production cannot compete with established market leaders, like the Chinese.

He notes the United States chemical giant, Du Pont, has developed technologies to give wool anti-static properties and put stain block into bales before they are sold.

Dr Carnaby headed the WRONZ team which invented and developed a tufted carpet needle which is now used worldwide and which helped pioneer a process for piece-dyeing plain wool carpets in the early 1980s.