

THE NEXT THAILAND?

Not really, but Malaysia must stay alert

By Assif Shameen and Steven K.C. Poh / Kuala Lumpur

DAIM ZAINUDDIN, MALAYSIA'S FORMER economic czar and still a close adviser of Prime Minister Mahathir Mohamad, shakes his head. "Some people never learn," he says. "I was finance minister during the mid-1980s when we had a recession, and it took us several years of pain before we got back to high growth again and filled those empty buildings." The veteran moneyman believes that far too much of the nation's resources are being spent on property development: "You can't just keep building office towers, shopping complexes and condos."

The warning is gaining resonance because of property-related problems now roiling neighboring Thailand. "But Kuala Lumpur is not Bangkok," argues Christopher Boyd, managing director of MUI Properties. "We believe the current market is still more demand-driven than speculative." So MUI will go on building bungalows in a Kuala Lumpur suburb, a condominium in the seaside town of Port Dickson and a township in nearby Lukud.

	1996		1997F		1998F	
	GDP growth	Curr. acct. deficit	GDP growth	Curr. acct. deficit	GDP growth	Curr. acct. deficit
Malaysia	8.2	(4.6)	8.0	(4.3)	7.2	(4.2)
Indonesia	7.8	(3.6)	8.0	(3.6)	8.1	(3.3)
Thailand	6.7	(8.2)	5.0	(7.2)	5.5	(6.5)
Philippines	5.5	(3.2)	6.5	(3.9)	6.8	(5.1)

All figures in percentages. Current account deficit is % of GDP. Forecast numbers are consensus estimates of SocGen Crosby, Nomura, Peregrine, Deutsche Morgan Grenfell and ING Barings

Demand for middle-class housing may remain strong, but pressure is building in the office and retail sectors. Too many edifices are opening their doors, including mega-projects like the twin Petronas Towers, the world's tallest building. Office vacancy rates may top 15% by 1999 and nearly 20% by 2001, not far from 26%-30% at the height of Malaysia's 1985-87 recession. "A slowdown in exports is another concern," adds Sanjoy Chowdhury, a regional strategist at Fraser Securities in Singapore. "Eighteen months ago, Malaysian exports were growing at over 20% a year. The latest annualized figure is just 3.5%."

The numbers prompted Manu Bhaskaran, a regional economist for SocGen Crosby Securities in Singapore, to lower his GDP growth forecast for Malaysia to 5.4% in 1998 and 6% in 1999 -- from the projected 8% this year. (See table for the consensus estimate of five major brokerages.) "There is over-investment across the board in manufacturing, power, toll roads and telecommunications," he frets. "Demand will take a long time to catch up."

Another factor is Malaysian investment abroad. Over the past four years, local companies have poured billions of dollars into Southeast Asia, Latin America, Africa and eastern Europe. Many projects have yet to show a decent return. All these may boomerang on banks and other financial institutions because a slowing economy affects corporate earnings -- and could lead to loan

defaults by overstretched borrowers. Nearly 30% of all bank loans have gone to the real estate and construction sectors, while 20% were lent for the purchase of stocks.

That's still way below the exposure of Thailand's troubled banks. Rajeev Malik, a senior economist at Jardine Fleming International Securities in Singapore, ticks off other differences between the two countries. "Interest rates in Malaysia are approximately half of those in Thailand," he notes. "Malaysia's capital account has been open for several years now, and hence there is no unstable surge in capital inflows as a result of a structural policy shift."

Even so, an economic slowdown may come sooner or later. "Malaysia has had too good a run for far too long," says Chowdhury. "The question people should ask is whether what is happening there is a Thai-like meltdown or a desirable cooling after a decade of high growth. Once economies overheat, it is generally not very easy to manage a soft landing." Just ask Daim.