CHAPTER 1

INTRODUCTION

1.1 Introduction To The Economic Crises in Malaysia.

Malaysia has experienced various crises over the years since its Independence Day, 31 August, 1957. History has stated that Malaysia had gone through five major crises. Those crisis were:

1. Early commodity crisis which took place from 1956 to 1972
2. First oil crisis from 1973 to 1974
3. Second commodity / oil crisis from 1979 to 1982
4. Electronic / third commodity crisis from 1985 to 1986

The term ‘crisis’ is a complex phenomenon with multiple definitions depending on the context of usage. The Oxford Advanced Learner’s Dictionary defined the word ‘crisis’ as ‘a time of great difficulty or danger or when an important decision must be made’. The word ‘crisis’ actually came from the Greek and it means ‘to separate or divide’ and ‘to sift’, ‘to decide’ to indicate the idea of ‘discrimination or decision’ (Stern 1970). During the ancient time in Greek, the word ‘crises’ were often used to describe the ‘moment of truth when the significant of men and events were brought to light’ (Habemas 1975). Stern (1970) said that ‘crisis occur in diseases whenever the disease increases in intensity or goes away or changes into another disease or ends altogether’.
The term 'economic crisis' is used to indicate the turning point in the process of material production and distribution in which it is decided whether the system's 'self-healing powers' are adequate for the recovery and renewal of the capital accumulation. In order to explain the distortion in the economic system, economist had made the effort to generally define the crisis in terms of unemployment, inflation, stagnation, swollen government deficits, productivity shortfalls and high interest rates.

1.2 Objective Of The Study

The objective of this study is to provide the true picture of the economic crisis that started with the currency crisis in 1997. It is important that we as Malaysians are able to see the causes of the crisis, measures to counter the problems and the fruitfulness of the policies adopted.

History teaches mankind not to repeat the mistakes that they have done before. Analysis on the economic crisis itself would be a good ground to justify to mankind why the crisis occurred in the first place and to what extent the impacts had on the Malaysian economy. People would also be able to learn by analyzing the policies taken to combat against this crisis. Some of the policies adopted were seen to be successful while others have yet to show great significance.
With the issue of globalization is much talked about these days by economists and world leaders, the lesson learnt from the economic crisis would make Malaysia to be extra careful and have a more solid economic foundations especially when dealing with external parties. It is hoped that the experiences that Malaysia accumulated after coming out from the crisis would make its economy more mature in the future.

1.3 Scope Of This Study

The scope of this study will mostly cover the economic scene in Malaysia since July 1997 to the point where capital and exchange controls were introduced in September 1998. However when it comes to the evaluation of the measures taken, this study will look into the period from September 1998 to early year 2000.

1.4 Methodology

The methodology adopted here is that of a descriptive analysis. Information on issue discussed will be gathered from various existing literatures published by top scholars and organizations in economics. Some data will be captured from reports made available by the Valuation And Property Services Department, Bank Negara, and Department of Statistics. These data will then be analyzed to form the information that will be meaningful and related to the topic discussed in this project paper. Some informal interviews will be carried out at
some of the government agencies in order to seek further information relating to
the social impact from the economic crisis in Malaysia.

This study will also capture and analyze what been said and written in the
economic books, journals and working papers by economists on the Malaysian
economy crisis.

1.5 Result Of The Study

It is hoped that the study would provide some significant knowledge on the
recent crisis that hit the Malaysian economy. It is also hoped that it can contribute
further as the basis for more advanced analysis to be made at a higher stage.
There are many things that can be learnt from the mistakes that Malaysia had
made in the past, thus making its economy so vulnerable to be manipulated by
other parties who wish to make gains from a country that strive so hard to
achieve the status of developed countries. As for Malaysia, the experience of
going through the crises or turmoil is certainly vital and essential in making it
more mature and stable.

1.6 Problem Statement

The recent 1997 currency crisis was the worst currency crisis that the
Malaysian economy had encountered since gaining Independence Day in 1957.
The currency crisis then turned financial crisis and later transformed into
economic crisis came as a surprise to most people of the world. This is simply
due to the fact that for the past 10 years before the crisis, the Malaysian economy was booming and being blessed with all kinds of prosperities.

When the crisis started, the economy was so bad and there were all kinds of speculations and uncertainties transpired. The Government of Malaysia had to take various drastic measures at that point of time. The fear was the unbearable scenarios that have 'conquered' the economies of Indonesia and Thailand. Basically the economies of those two countries had reached rock bottom and they had no other choice but to accept and agree to all conditions imposed by the International Monetary Fund (IMF) in order to ease their crises. It was a situation that they had never experienced before.

This study is intended to reveal the true picture of the Malaysian economic crisis. The coverage would be significant to an extent that it could be used as a ground to be analyzed further at a higher level.

1.7 Limitation Of The Study

The study is based on historical data. Most of the information is gathered from written researches done by economic scholars. Some of the data captured were from the reports made available from government agencies. The study will only be concentrating on a short-term time frame. All the policies and actions taken by the government in some cases had turned out to be fruitful at the time this paper is being produced while others had yet to prove real positive and
encouraging outcomes. In ten years time, when we look back at all these policies and actions taken, we could have different views about combating the crisis.

1.8 Structure And Organization Of The Study

Chapter 1 will form the introduction of the study. Some ideas on the subject matter will be generally described. It will also provide the reasons on the rationales of the study and the limitation to it.

Chapter 2 would form the literature reviews on the subject matter. In this chapter, the reader will get some general idea in relation to the background of the economic crisis that had hit the Malaysian economy so badly that without careful corrective measures taken, Malaysia would be unlikely to achieve the desired economic state as described in the Vision 2020. There are 9 challenges outlined in the Vision 2020 and the details are illustrated in the Appendix 6 of this paper.

In Chapter 3, the study will look into various causes of concerns before the crisis took place. Here the views of local and foreign economists are taken into account. The claims made by Malaysian government will also be forming the flows of this chapter.

After looking into the causes of concerns, in Chapter 4, we will see the impacts of the crisis to the Malaysian economy. It is essential that we know thoroughly and in depth about those impacts and the consequences. Malaysian
government needs to analyze those impacts carefully so that the right policies can be introduced to combat this problem.

In Chapter 5, we look into the solutions taken by the Malaysian government in its attempt to pull out the Malaysian economy from the crisis. In this chapter, some of the policies taken will be discussed in detail. Appendix 5 will illustrate the six objectives set by the NEAC as a way to restore back the Malaysian economy.

Chapter 6 will provide some evaluations on the measurements taken by the Malaysian government. Both favourable and unfavourable arguments will form the strengths of this chapter. In some cases, the analysis made will be the basis of the arguments and discussions.

Chapter 7 will discuss the recovery of the Malaysian economy. In this chapter we will be able to see the progress of the recovery. It will give a good indication on how our economy stands at the moment.

Lastly, in Chapter 8, it will be the conclusion for the study. It is hoped that valuable information has been shared and many lessons learnt. It is also hoped that the research will be a good foundation for more advanced research to be carried out at a higher level.