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YEAR-ENDER: '97 M'SIAN ECONOMY TO GROW AT MORE MODERATE & SUSTAINABLE PACE

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KUALA LUMPUR, Dec 23 (Bernama) -- Malaysia's economic growth next year is expected to grow at a more moderate and sustainable pace and the main impetus will continue to come from the manufacturing and service sectors.

Economic watchers believe that growth would again be achieved at a respectable level against a background of low inflation and a healthy overall financial position of the federal government.

The Malaysian Institute for Economic Research (MIER) recently estimated that the country's real Gross Domestic Product (GDP) growth is forecast to be sustained at 8.2 percent in 1997 but picking up to 8.5 percent in 1998 when Malaysia plays host to the Commonwealth Games.

For 1996, the MIER feels that the local economy would grow by 8.3 percent with inflation capped at 3.6 percent.

Unemployment, it said, would drop further to 2.6 percent, reflecting the tightening labour market.

The moderation in economic growth would be accompanied by a slower growth in consumption, leading to an improvement in national savings. Together with slower capital formation, Malaysia's resource position is envisaged to improve gradually over the 1996-97 period.

This would consequently reduce the current ccount deficit in the balance of payment, said several analysts interviewed by Bernama.

But some quarters have expressed concern that the Malaysian economy may take a breather after having grown rapidly for a decade and even lose its growth momentum after the completion of major infrastructure projects in 1998.

The economic advisor to the government, Tun Daim Zainuddin, however, disagrees with this line of thinking.

"But one need not be unduly worried because the pace of infrastructure development and construction activities is not expected to slow down dramatically after 1998," he said.

Saying that the construction sector's contribution to growth is still relatively small, he added that even if the pace of infrastructural development were to slow down after 1998, it is not expected to severely dampen the rate of Malaysia's economic growth.

"Infrastructure development is a continuous activity and is supply-driven and would continuously be upgraded with increased sophistication of the nation," he added.

Daim said the manufacturing sector, which is the main driver of accelerated growth, would remain strong given continued private investments, improvements in productivity as well as improving world economy.

The continued structural transformation of the economy, which involves the restructuring of the manufacturing sector into more capital and technology intensive and knowledge based industries, and the further expansion of the services sector would provide the basis for sustained economic growth.

Daim added that the strong macroeconomic fundamentals which have supported rapid economic growth thus far, such as stable prices and exchange rate, a high rate of savings and a healthy public sector would continue to be in place.

"The current account of the balance of payments is continuing to improve with strong measures in place to boost exports further, reduce

imports and promote the services sector.

An assessment of fundamentals, therefore, point to the fact that the Malaysian economy would continue to sustain its growth momentum beyond 1998.

"It appears unlikely that its growth would be severely affected after 1998, hence the perception of an economic slowdown after 1988 appears to reflect baseless pessimism and is merely speculative," he pointed out.

Sharing Daim views is Tan Sri Dr Lin See Yan, former Bank Negara Malaysia's deputy governor, who said Malaysia has the potential to sustain its growth until the turn of the century.

"I know of no natural law that says that after a period of growth, we have to have a recession," he was quoted as saying at a recent lecture.

Dr. Lin, who is now president and chief executive officer of Pacific Bank Bhd, said five sets of policies underpin Malaysia's economic success.

They include maintenance of a broad macro economic stability, the promotion of strategic policies that have been both outward oriented and increasingly market-friendly, the supply of fiscal infrastructure ahead of demand, significant long term investments in human capital through education and the commitment to eradicate poverty and the pursuit of programmes to restructure society and promotion of social justice.

Meanwhile, Dr R Thillainathan, the finance director of Genting Bhd, was of the view that there were many sympathetic observers who felt that the Malaysian economy was spinning out of control.

But he said the timely decision of finance minister Datuk Seri Anwar Ibrahim to tighten monetary policy, first in October 1995, then twice in January this year and more recently in June, had resulted in a perceptible change in market sentiment and for the better.

"But the situation is still delicate as the growth rate in money supply still continues to outstrip real GDP growth rate," he said.

"The risk facing the economy is not the risk of recession but is still the risk of overheating," he said, hoping that monetary policies would continue to be on a tightening mode, at least until money growth rate decelerates to be in line with GDP growth.

Dr Thillainathan also said that to sustain high growth into the future, Malaysia must transform itself in the years to come from a primary producing cum manufacturing economy to a manufacturing-cum service economy.

It is easier to sustain the high growth of the Malaysian economy by making the service sector as the engine of growth rather than continuing to rely on the manufacturing sector, he said.

"The current GDP share of manufacturing at 33 percent is very high," he said, adding that he saw real limitations in the long run in growing the manufacturing sector at a rate faster than the overall economy., given that Malaysia's GDP share of manufacturing is already among the highest in the world.

Not only is the potential of the service sector not being realised, he added that the unrealised potential had also become a drag on the rest of the economy.

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