

02/03/1997

Growth policy paying dividends

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IN the Aug 27, 1995 column headlined "Soft landing is better than a crash", I suggested it was better for the Government to consider soft-landing the economy, arguing that it was showing signs of overheating.

I mentioned sky-rocketing property prices, full employment, escalating labour cost, mediocre productivity growth and inflation as some of the signs of overheating.

The suggestion, as some readers may recall, did not go down very well with the Government which strongly argued that lowering growth would not necessarily reduce the deficit but would instead cause other problems.

Prime Minister Datuk Seri Dr Mahathir Mohamad argued that the better way to overcome the balance of payments (BOP) deficit was to produce more goods and services for export and reduce the country's dependence on imports.

Now, some 18 months later, there are strong signs to suggest that the Government is winning the argument.

While the labour market remains tight, production cost continues to rise and the mismatch between salary increase and productivity prevails. However, the BOP position has shown considerable improvement and inflation is capped at below four per cent.

The economy, on the other hand, continues its high growth rate despite declining to 8.2 per cent in 1996 from 9.5 per cent in 1995. This is way above the seven per cent per annum needed to achieve the growth goals of Vision 2020.

The latest Treasury figures showed that the BOP position for 1996 was much better than anticipated by the Treasury in its 1996/1997 Economic Report.

Propped largely by the improvement in merchandise account, the current account deficit of the BOP was estimated to narrow to RM11 billion against the forecast of RM14.8 billion or 4.7 per cent and 6.3 per cent respectively of the gross national product.

This constituted a vast improvement over 1995 when the BOP deficit totalled RM18.7 billion or nine per cent of GNP.

More significant is the fact that the basic balance for last year is estimated to turn around to record a surplus of RM1.4 billion against the Economic Report forecast of RM2.4 billion deficit and the actual 1995 deficit of RM2.5 billion.

Consequently, the overall balance is estimated to record a higher surplus of RM6.3 billion against the forecast of RM1.2 billion and the 1995 deficit of RM4.4 billion.

Dr Mahathir's argument on the merit of building the country's export capacity instead of slowing down economic growth as prescribed by some multi-lateral agencies and international economists is proving to be correct.

The interim trade figures released by the Department of Statistics showed exports f.o.b. rose by 6.3 per cent to RM196.7 billion while imports c.i.f rose by 1.5 per cent to RM197.3 billion.

As a result, the merchandise account (exports f.o.b. and imports f.o.b) is estimated to record a larger surplus of RM9.1 billion against the Economic Report forecast of RM4.6 billion and the actual surplus of RM200 million in 1995.