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Increasing productivity and savings

EVEN during the worst storms, the seabed remains calm, untouched by the turbulence on its surface. This was also true of Malaysia during the past few weeks when its financial markets were hit by storms caused by currency and stock market speculators. It is also true of the economic fundamentals; in such a crisis, fundamentals do not change, although there may be a shift in perception. The Government kept its cool during the recent crisis and worked on strengthening the fundamentals rather than trying to battle the storms on the surface. And - judging by the index on the KLSE and the ringgit's exchange against the US dollar - the country came together wonderfully in marshalling its forces against speculative attacks and the undermining of the economy.

At the moment, the current account deficit seems to be the chink in Malaysia's economic armour, the most quoted reason for the sell-down of both Malaysian stocks and its currency. As Deputy Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim said, the Government is aware of the problem and is working towards a solution. At the moment, the country's Gross Capital Formation (investment) as a percentage of Gross National Product (GDP) is higher than the savings rate. The difference between investment and the savings rate has to be made up by foreign savings which manifests itself in a current account deficit.

To eliminate the need for foreign savings, Malaysia needs to bring down investment or raise savings. The country is doing both. Bank Negara governor Tan Sri Ahmad Mohd Don said Malaysia must increase its savings rate to avoid depending on foreign investment to fund development. He pointed out that heavy reliance on foreign loans would put the country at risk and expose it to the high cost of funds. One of the pre-Budget measures announced on Sunday by Anwar to encourage savings is the doubling of the limit that Bumiputeras are allowed to invest in Amanah Saham Nasional and Amanah Saham Bumiputera, the country's largest savings schemes. Malaysia already has one of the highest savings rates in the world - some 39 per cent of GNP at the end of last year. With the national savings campaign, the rate is expected to rise to over 40 per cent.

Prime Minister Datuk Seri Dr Mahathir Mohamad also announced last week that the country will be delaying some major infrastructure projects such as the Bakun Hydroelectric Dam, the northern airport and the KL Linear City, which are estimated to cost more than RM25 billion. He pointed out that the delay was due to the devaluation of the currency which would mean that any purchase of imported goods will cost more in ringgit terms, raising the cost of the projects by about 20 per cent. Massachusetts Institute of Technology professor of economics and management Rudi Dornbusch said there are two sources of growth: increased capital per worker and increased productivity. The trouble with capital accumulation is that someone has to do the saving. If capital accumulation gets a country ahead, it has to be paid for by postponing consumption. Which means that the savings is nothing more than deferred consumption. But, he pointed out, increased productivity gets a country ahead without the sacrifice of consumption.

So perhaps a concerted Government effort towards increasing productivity in the country - by trimming away the fat to make a leaner, meaner corporate sector - is needed. Instead of just increasing the quantum of savings, it could try to make optimum use of resources and increase

productivity, which would in turn produce the same growth on a lower quantum of investment. In Malaysia's case, a lower quantum of investment would ultimately reduce the need for foreign savings, which is equivalent to a lower current account deficit. Anwar will also have to come up with more measures when he tables the 1998 Budget next month. Unpopular measures, we suspect, are inevitable this time around. But for the long-term well-being of the economy, small sacrifices should not be too much to ask.

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