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Significant spin-offs for economy expected

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THE Government's spending on large-scale infrastructural projects will help kick-start the Malaysian economy and restore investors' confidence, analysts and economists told Business Times.

They agreed with the National Economic Action Council's recommendation that public sector spending on these projects will create spin-offs to stimulate the economy.

Prime Minister Datuk Seri Dr Mahathir Mohamad, who made the announcement in Seremban Tuesday, said it is one of the measures taken by the Government to jump-start the economy.

TA Securities senior economist Anthony Dass said that while the construction industry contributes to 5 per cent of the national gross domestic product (GDP), its contribution to the domestic-oriented industries is very significant.

"The manufacturing sector's share of the GDP is about 36 per cent, of which the domestic-oriented industries account for 48 per cent. About 20 per cent of the domestic-based manufacturing are construction related industries.

"It's a right tonic for the economy which will have a spill-over effect," Dass said.

Economist Tan Sri Ramon Navaratnam concurred with Dass, saying that the construction industry will create spin-offs in 140 related industries and help create employment.

He said the Government could not come up with the proposal earlier for fear of aggravating the country's current account deficit.

Deputy Prime Minister Datuk Seri Anwar Ibrahim, in his ministerial statement at the Dewan Rakyat two weeks ago, said the country is expected to register a current account surplus of RM2 billion.

Analysts said the Government is expected to finance the various mega-projects through internal and foreign borrowings, as well as wooing foreign investors to pump money into these projects.

Apart from the RM7.03 billion fund to finance social and economic projects, the Government recently announced the setting up of a RM5 billion infrastructure development fund to revive critical projects such as water, sewerage, monorail, highways and ports.

"The inflow of foreign funds will have a short-term positive effect by stabilising the ringgit," Dass said.

However, an economist with a research company warned that interest rates may go up if there is no expansion of liquidity in the money market, as the Government will compete with the private sector for funds.

Another analyst said that while the Government's effort to revive the economy should be lauded, he expressed the fear that the country's import bill may go up.

"The Government should ensure that those undertaking the mega projects utilise or source machinery and equipment that is available in the country. A lot of machinery and equipment is left idle after a project is completed," he noted.

During the 1980s recession, the Government also used a similar approach to revive the economy by building the North-South Expressway, Peninsular Gas Utilisation pipeline and rural water supply projects.

Meanwhile, the Master Builders Association Malaysia (MBAM), in welcoming Dr Mahathir's announcement, said it is timely as the construction sector

has been worst hit by the current economic problems.

"The injection of critically needed funds will not only provide an impetus to generate works in the construction industry, but also in the manufacturing and services sector comprising more than 140 linkages," MBAM president Lai Moo Chan said in a statement.

Lai said the MBAM pleased that some of its proposals contained in memorandums to the authorities, including the NEAC, were noted.

These include an additional allocation of RM1 billion for the National Housing Company to serve as revolving credit for the construction of low- and medium-cost houses, the RM7.03 billion social economic fund of which a portion is to build schools, hospitals and rural roads, as well as the RM5 billion infrastructure development fund.

Lai said while the MBAM welcomed the injection of funds into large-scale infrastructure projects, it expressed concern that the implementation may take longer, whereas an immediate boost is needed in the industry.

"The MBAM hopes that the Government will ensure wider distribution of such projects to benefit as many contractors as possible. Perhaps, these projects should be apportioned into smaller packages to ensure even distribution of works," he said.

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