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Brighter prospects for economic recovery

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LAST Thursday, Prime Minister Datuk Seri Dr Mahathir Mohamad tabled in the Dewan Rakyat the Mid-Term Review of the Seventh Malaysia Plan.

The document is a reassessment of the progress of socio-economic development. Such evaluations enable planners to review and revise prospects and forecasts for the remaining years of each Plan period.

The reviews are necessary as each Plan covers five years. And five years of macro-economic programmes must be constantly monitored to ensure targets are met.

If evaluations point to the eventuality that objectives might not be achieved, fresh initiatives and fillips in greater monetary allocations are introduced to ensure the targets are met. Conversely the targets are reduced.

Actually such targets are set by even greater and longer term master plans, called Outline Perspective Plans. The first, OPP1, covered a 20-year period, 1971 to 1990.

The country's socio-economic managers realised the problems inherent in establishing targets, implementing programmes and achieving long-term objectives. And so the framework of the second, OPP2, was shortened to 10 years, 1991 to 2000.

The first three years of OPP2 were happy ones, just like the last three of OPP1. Six consecutive years of economic growth of more than eight per cent happily perforced the Economic Planning Unit to revise upwards its projections for OPP2.

When first presented in 1991, OPP2 forecast an annual gross domestic product expansion of 7.5 per cent. In December 1993, the mid-term review report revised the estimate for the entire 10-year period to an annual average economic growth of 8.1 per cent.

The achievement of the subsequent two years lived up to the high expectations.

Economic expansion kept clipping at an enviable rate. So much so the planners set the target of an annual real GDP growth of eight per cent for the Seventh Plan period that would achieve, if not surpass the overall economic growth objective of OPP2.

The first two years saw economic expansion on par for the OPP2 course; an 8.7 per cent real GDP growth in 1996 and 7.7 per cent in 1997.

But unhappily problems, well documented, devolved on the country in mid-1997 which some say beset the economy even earlier, though imperceptibly.

The problems, explained in the White Paper tabled in Parliament two weeks ago by the Deputy Prime Minister, Datuk Seri Abdullah Ahmad Badawi, resulted in the second and worst recession the country had to endure in its economic history, a GDP contraction of 6.7 per cent.

That unprecedented and totally unexpected recession skewed earlier forecasts. And the Mid-Term Review of the Seventh Plan presents a sober re-assessment of achievable economic growth targets.

The economy grew by an annual rate of three per cent in the first three years of the Plan period.

Already we had been told that this year would see the country notch up a real GDP expansion of a humble one per cent.

The MTR says next year would be more buoyant. The country might be able to record a growth of as much as five per cent.

The report says the overall growth figure for the entire SMP period

would be three per cent, far, far lower the original target of the plan. It would also alter the figures forecast by both the OPP2 and SMP.

These are macro-economic statistics which tell precious little to the man in the street.

But other economic indicators open up clear windows on the economic landscape and what they show to every and anyone who cares to look.

For one, per capita income statistics reveal how much poorer we have been rendered by the last two years.

Per capita income is one indicator of the wealth of each individual, man, woman, child and the non-income earning old in the country.

It is a figure arrived at by dividing the national income by the total population.

True, it is merely an economic statistic but it tells, year after, the progressive wealth of individuals and coupled with movements in the Consumer Price Index, the purchasing power in any given year of the ringgit.

The SMP forecast that the country would have a per capita income of RM14,788 by the year 2000.

But the two bad years have, as Dr Mahathir said, "put us back by a few years".

That SMP forecast would not be achieved by any stretch of hopeful expectations.

For per capita income in 1997 was RM12,051. It declined to RM11,835 last year. It will be not be any better this year, according to the 1998 Bank Negara Report which forecasts the figure for 1999 to be RM11,831.

Even with the forecast real GDP growth of five per cent, the per capita income figure will not leapfrog next year to anywhere near the SMP target.

Moreover, the per capita income figure is nominal, not real. In simple terms, the figure is only relative.

Compared to real income, it would be less when you factor in inflation. One ringgit this year is worth less than last year's value.

It follows therefore, the nominal value might be high next year, but in reality it would be less.

How much the wealth of individuals has shrivelled if further underscored by to another indicator, the CPI?

This indicator of inflation former rose by 5.7 per cent last year, very high by Malaysian standards.

Inflation reflects the purchasing power of the ringgit. And the rise in inflation indicates that ringgit did not stretch as far as it did in 1997 or earlier years.

And so what does the MTR portend for the remaining two years of the SMP period?

The planners have revised economic targets which have been soberly lowered. But economies, whether successful or troubled have to be managed.

For more than a decade the economic managers have been in the fortunate position of having to manage a successful economy.

Over the past year, they had been compelled to nurse an ailing economy. That they have done with a degree of success.

They have managed to arrest the recession and the economy is now in a growth mode.

They know they have to galvanise it. They have to prime-pump the economy again.

And they have allocated no less than RM22 billion in additional funds, almost a third more than the original SMP allocation of RM67.5 billion.

A substantial portion of these additional monies would be channelled into the economic sector, that is industries that together are the cogs of the engine of the country's economy.

The funds would generate additional jobs, make opportunities to educate a more skilled workforce, consolidate financial institutions, revitalise the agriculture and rural sectors, harness information technology and ultimately, improve the quality of life.

The additional allocation is huge, far more than that arranged by the six previous MTRs.

The Government is confident that a substantial portion of this amount can and will be raised locally. For one, the local bond market is relatively untapped. It will go abroad, if the need arises.

But the objectives of the revised programmes and the added allocations will not be achieved if, the people do not respond.

For economies grow and decline as a result of the response of the population.

Economists have a term, aggregate domestic demand. It simply means people must buy and avail of various services. Sales rung up by products and services contribute to the economy.

The country encountered two bad years. One consequence was in the rise of wages.

The average wage increase in the manufacturing sector fell from 7.3 per cent in 1997 to a mere 0.3 in 1998.

That did not put a lot of disposal income in the pockets of wage earners which resulted in a drop in the sale of large items like cars and houses.

But prospects are brighter now. RM22 billion is a lot of money. It should galvanise almost all sectors of the economy and ultimately put a bit more money in the wage envelopes of all workers.

As Dr Mahathir said: "All these measures (contained in the MTR and which would be implemented in the coming 20 months) to achieve the nation's aspirations can only be realised if each and every one of us gives his...best to the role each much play."

That role is simple. To have faith that the country's economy will rebound and to create a demand for products and services, especially the local varieties.

Of course, we are not an island. Our economic fortunes are also in part determined by the fortunes of our trading partners. The forecast by MTR is equally buoyant about them.

Hopefully, the country would achieve the MTR target of real GDP growth of five per cent in the year 2000 and, again hopefully, we would have a better quality of life then.

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