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Budget should have policies for more resilient economy

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ALL Malaysians are looking forward to two major events before the dawn of the new century in just about three months.

These events are the Budget 2000 and most probably the next general election. But it's the Budget that will have a more direct impact on the day to day living of the rakyat.

As for the general election, it is generally assumed that it must be peaceful and that its outcome will continue to provide a strong and stable government which is a prerequisite for steady and sustained economic recovery and growth.

What can we expect of Budget 2000 at the end of this month?

While the economic recovery has been stimulated by the strong performance of our exports, it is important that the Budget continues to be mildly deflationary.

The unorthodox measures adopted by the Government last year have proven to the International Monetary Fund and its supporters that they have been wrong, that there are legitimate and more beneficial alternate policies which could be adopted to overcome externally generated economic and financial disruption and instability.

Most importantly, the Government has shown that economic recovery can be achieved without paying a high price in terms of social instability and the loss of 'fire sale' assets to foreigners.

Malaysia's economic sovereignty has thus been protected by not going to the IMF for bailouts. In fact the IMF adopted Malaysia's policy of deflation in the later stages of its bailout of Thailand, Korea and Indonesia.

The Budget strategy should, therefore, aim to consolidate economic recovery by further strengthening the banking and financial systems and ensuring better corporate governance through tougher enforcement of transparency rules and regulations.

The strategy should also aim to gradually push the private sector to provide the strong thrust for sustained economic recovery. All economic policies including the NDP need to be modified and liberalised where possible, to further encourage the business sector to play a bigger role in promoting economic growth and equity.

But the Budget's counter cyclical role has to gradually taper off. The Budget's large deficits, especially on the current account, have to be reduced. Too much deficit financing can be counter productive and become inflationary.

It is a matter of concern that the Budget's current account is showing large deficits. It is undesirable to finance these deficits with borrowing, even if its from domestic sources. We will be paying salaries from borrowing, which is unhealthy especially in the longer term.

The Budget has to return to more manageable deficits and even to balanced positions at least on the current account, as soon as possible. It is more acceptable to tolerate overall budget deficits, but not current account deficits.

The Government cannot provide the engine for recovery and sustained economic growth for too long. Otherwise the fiscal strains could harm the economy and undermine sustained recovery. Then we could develop economic malaise.

Foreign Direct Investments can be stimulated by further relaxing some of

the selective exchange controls. More FDIs are likely to come in with less controls, provided we keep the necessary safeguards against disruptive volatile hot money.

We could start the process by relaxing the fixed exchange rate, to a floating rate, within reasonable bands.

At RM3.80 per US dollar, we could be encouraging imported inflation and over protecting the manufacturing industry, which needs to become more competitive, especially with the onslaught of globalisation and the WTO's second round of negotiations this November. The ringgit could be allowed to strengthen to RM3.60 to US\$1.00.

Interest rates have been considerably reduced and this has helped the corporate sector in servicing its debt obligations and restructuring.

But bank deposit rates have also declined to levels that will not provide incentives for the public to save. Savings rates are already low compared to inflation rates. This is unhealthy.

Our high savings rates could therefore decline and cause strains on our capacity to invest. Then one of Malaysia's strongest fundamentals of high investment could weaken and sustained economic recovery could be jeopardised later.

The Consumer Price Index has been regarded as low by the Government. However, if we examine the Food Index, it has been rising steadily at around six to eight per cent per annum.

The real price increase on the ground could be even higher. The rate of increase of the prices of fresh food items and cooked food have been considerable.

The shortages of fish, meat and vegetables have kept food prices unduly high and rising. This could impact adversely especially on the low income groups.

There are severe weaknesses in land alienation and in the food production, distribution and the marketing systems, which Government needs to address in the Budget 2000. Progress in overcoming these long standing weaknesses have been too slow.

Prime Minister Datuk Seri Dr Mahathir Mohamad's new vision for a more buoyant agriculture sector will help to boost output. Productive vegetable farmers and fishermenshould be particularly encouraged to produce more.

Private consumption would also have to pick up much faster to sustain the current economic recovery.

The Budget could exempt duties on a wide range of food and shopping items that may not have a significant impact on revenue, but which would have a favourable impact on the food price index and the prices of shopping goods.

This could encourage more tourism and thus increase the utilisation of excess hotel and transport capacity.

Malaysia is committed to reducing the import duties over a wide range of goods under the AFTA by the year 2003, but this process could be accelerated in Budget 2000.

The Budget could reduce taxes on protected labour intensive products, to encourage the higher value added industries, which use much more technology.

Personal Income Tax rates could be slightly reduced. In its place some form of Value Added Tax could be introduced on higher income luxury goods, so that the poor will not be adversely affected.

The Budget should reflect the need to shift from labour intensive, to more capital intensive and technological industries and exports.

The imported labour, estimated at over one million from neighbouring countries, have to be considerably reduced to cut down on foreign exchange outflows and the huge expenditures incurred on health care, education,

housing and crime prevention.

Statutory Bodies have been urged recently to be more efficient. This is welcomed as they constitute a large position of the consolidated public sector finances.

However, as in the case of Matrade and TDC, these statutory bodies cannot work efficiently as they are governed by too many Government regulations, that are tied to Government grants. Statutory bodies should be run more on business lines and be staffed by business minded officials who have to compete with other businessmen worldwide.

If they cannot make profits or even breakeven, they should be privatised. This way Bumiputeras in these statutory bodies will better learn how to become successful businessmen and even good entrepreneurs.

But privatisation rates should be reasonable, otherwise the public will be penalised for new toll roads. The Budget 2000 could concentrate on how to strengthen our economic resilience by learning from the lessons of the economic crisis.

Firstly, the economy must not be allowed to grow too fast. A growth of five per cent per annum should be adequate to realise its potential optimum growth without causing strains and creating vulnerability.

If the financial institutions do not consolidate and increase their prudence and efficiency fast enough, foreign participation could be stepped up, to increase more competition and higher productivity in our financial system. We cannot afford to overprotect our financial institutions because it will be at our economic peril.

Given rapid globalisation taking place all round us, we have to adopt more competitive policy within the country, in order to compete effectively outside the country. Only efficient Bumiputeras should continue to be assisted by the Government.

The Budget could, therefore, ensure that there will be more competition in Government tenders and negotiated contracts.

Similarly, the allocation of Bumiputera public equity shares could be made on more equitable criteria and on the basis of greater merit and transparency. This will enable fairer income distribution and more efficient use of our national resources. Since large allocations are made to universities and the whole education system, much more priority could be given to quality, merit and academic excellence.

Universities should be run much more competitively so that R&D could be increased to raise national productivity. Our productivity as measured by the NPC is lower than even our neighbouring countries.

Thus the Budget should focus more on relating expenditure allocations to the performance and productivity of all Ministries and departments. Ministries and officials with low productivity should be penalised.

Budget 2000 will have to show that policies and practices for a leaner and more competitive and resilient economy are put in place as the strong foundation for the 21st century.

At the same time, because of the generalelection and because Malaysians deserve it - we expect a Sweet Budget 2000!

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