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GDP expected to expand 7.5pc a year this decade

MALAYSIA is on track to achieve developed nation status by 2020 despite two years of setback suffered by the economy amid the regional financial crisis in 1997.

According to third Outline Perspective Plan (OPP3), Malaysia's gross domestic product (GDP) growth would average 7.5 per cent a year this decade, up from 7 per cent under OPP2 (1991 to 2000).

Prime Minister Datuk Seri Dr Mahathir Mohamad, who tabled the Plan in Parliament yesterday, said GDP growth in 1991-2000 would have been much higher, but for the Asian crisis in 1997-98.

Therefore, in the second decade of Vision 2020, the Government is confident of 7.5 per cent gross domestic product growth, he added.

"Of course, this is contingent upon world economy recovery. We are a trading nation. If the world economy is not doing well, we cannot grow," the Prime Minister added.

Seeking out new markets to serve as a buffer against external developments would help, but it is not easy as Malaysia will have to go up against leading economies like the US and Japan, he said.

Even the, despite the Asian crisis, the Malaysian economy did well to achieve commendable growth.

"More importantly, it was achieved in an environment of low inflation, price stability and full employment. The per capita income increased at an average of 7.8 per cent per annum and doubled from RM6,298 to RM13,359 between 1990 and 2000," he said.

The impetus for the strong growth came from the private sector, as well as exports, unlike in the 1980s when public sector investment was the main impetus.

Economists contacted by Business Times said the economy should have no problem achieving 7.5 per cent real GDP growth a year under OPP3, as efficiency and productivity are improved, and deficit in the services account addressed.

RAM Consultancy Services Sdn Bhd chief operating officer Dr Yeah Kim Leng, however, cautioned that the challenge will get increasingly greater as the economic base rises.

"It is a worthwhile target but we have to remove supply bottlenecks and increase productivity both in the public and private sectors.

"The OPP3 forms a good basis to maximise allocation of resources and productivity," Yeah said.

Deputy director-general (Macro) of the Economic Planning Unit Datuk Halipah Esa said:

"It is not an easy target, but taking a long-term view on the world economy, we believe we have the resources and capacity to achieve it.

"Remember, we were right on target in achieving 7 per cent annual growth under OPP2 despite the severe recession in 1997-98."

Under OPP3, the agriculture, manufacturing and services sectors will be promoted to generate economic dynamism, especially through greater emphasis on knowledge inputs.

For the services sector, the focus will be on tourism, education, health, finance, ICT (information and communications technology) and transportation.

Domestic private investment will be promoted to support an endogenously-driven growth strategy, while foreign direct investments (FDIs) will be

routed towards the high-tech sectors.

And in finance, the capital markets and corporate governance will be strengthened for growth sustainability, while in the transition to the k-economy, the manufacturing sector's expansion is expected to moderate to 8.3 per cent a year under OPP3 from 10.4 per cent in the previous decade.

But in terms of contribution to GDP, the manufacturing sector will remain a key player to account for 36 per cent by 2020, up from 33.4 per cent in 2000.

The services sector is meanwhile targeted to grow at 8.4 per cent a year, compared to 8.3 per cent under OPP2, but share of GDP will rise to 57.4 per cent in 2010 from 52.4 per cent last year.

The main services components of trade, transportation and finance are expected to contribute 17.3 per cent, 9.8 per cent and 13.5 per cent, respectively, to GDP.

Yeah said it is important that efforts are intensified to improve cost competitiveness. For the manufacturing sector, the Government must ensure that there are no supply bottlenecks, meaning shortage of capacity.

"Labour cost must also be tied to productivity, which means wages must not increase faster than productivity," he said, adding that the shipping and insurance deficits will need to be addressed as well.

Halipah said efforts to transform Malaysia into a centre of excellence for education will see the sector, as well as tourism, help reverse the services deficit.

Private consumption will meanwhile also help drive the economy under OPP3 by growing an expected 7.4 per cent a year, compared to 5.5 per cent in the previous 10 years.

"However what is more important is to maintain a balanced budget, and not just focus on the growth rate," she said.

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