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Sustaining our growth

RIGHTLY so, the thrust of next year's Budget is about increasing the country's resilience and enhancing its competitiveness in the face of a weakening global economy.

As a major - and perhaps, the only - engine of world trade, the contraction of the United States' economy would bring a sharp decline in world output and trade growth. For the first time since 1995, its labour productivity fell in the first quarter, casting more doubt on the perceived wisdom that the "new economy" puts productivity on an endless growth path.

The International Monetary Fund revised its growth projections downward with the US growth projected to be 1.5 per cent compared to the earlier forecast of three per cent and global economic growth down to 3.2 from 4.2.

Still, it is worth remembering that prejudices and overwhelming fears tend to dominate these predictions. Despite the uncertainties, the Group of 10 industrial nations expects the US economy to pick up in the second half of the year through monetary stimulus from US Federal Reserve's interest-rate cuts and fiscal stimulus from major tax-cuts.

As said by the Government earlier, there is no reason to fear the worst from a US slowdown. True, there is basis for expectations of slower domestic growth. But a global slowdown would allow greater space for the pursuit of structural reforms and for domestic production to merge, diversify and grow as well as enhance its competitiveness. As pointed out by Prime Minister Datuk Seri Dr Mahathir Mohamad, the dwindling of foreign direct investment means that the country has to capitalise on domestic investment.

The case for a fiscal push, mediated through pumping up domestic demand which is led by enlarged public expenditure, is obvious. Such a fiscal thrust would revive growth without spurring on inflation - it is being kept to the minimum now - since there would be no supply constraint operative and the investment accompanying such a thrust would also improve the supply situation. It is worth bearing in mind that the country's reserves, at US\$26 billion as of last month, is comfortable. The recent successful sale of Malaysia's US\$1 billion sovereign bonds will also help the Government to pump-prime the economy. The proposed tax reductions will also spur domestic investments.

But the successful realisation of such a thrust should not be constrained by: First, the contradictory posture of some companies which run to the Government for solutions each time growth slackens but balk at the Government-initiated efforts for greater corporate governance. Although the Political and Economic Risk Consultancy's survey on corporate governance ranked Malaysia top, above Singapore and Hong Kong, the corporate sector should not declare victory yet. Corporate governance should be a continuous effort.

Second, the mind-set of the public servants that do not see the urgency in the implementation of policies. Third, the reluctance of the people to stimulate consumer spending despite the rise in the per capita income and purchasing power. The reluctance to spend because of the expectation that prices of equities and properties would fall further, as is the case in Japan, could have a deleterious effect on the economy.

We need to remind ourselves that the likely implications of a global

downturn this time around may well be different from previous slowdowns. We need to remain resilient and competitive. It is only by enhancing our competitiveness that our search for alternative export markets, other than the US, will be successful.

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