

# Private sector gets wakeup call from Dr M

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By K.P. LEE

DATUK Seri Dr Mahathir Mohamad is known for his use of direct, unambiguous language. During his budget presentation last Friday, at the very top of the country's to-do list contained one sentence: Increase domestic investment in all sectors with growth potential.

The reason, as the Prime Minister pointed out, was obvious. "Domestic private investment activities lack dynamism," he said.

In the decade from 1988 to 1997, private sector investment registered a healthy average annual growth rate of 21%. Since the financial crisis, however, the levels of private investment have wavered erratically and in three of the five years, the levels of investment have actually declined.

In 1998, private investment suffered a 50.9% decrease year-on-year, followed by another less severe fall of 27.3% the following year. Although investments recovered in 2000, they dipped again by 19.9% in 2001. The estimate for this year is a mild recovery of 1.8%.

The impact of these declines on the economy has not been insignificant as private expenditure, which encompasses private investment (the other component being private consumption) and accounts for more than half of the country's gross domestic product (GDP), has also been decreasing both in absolute terms and as a proportion of GDP.

The level of private investment in 2001 was RM34.5bil, a far cry from the RM90bil invested in 1997, and over the same period the private sector's contribution to GDP has also fallen significantly to 59% from 83%.

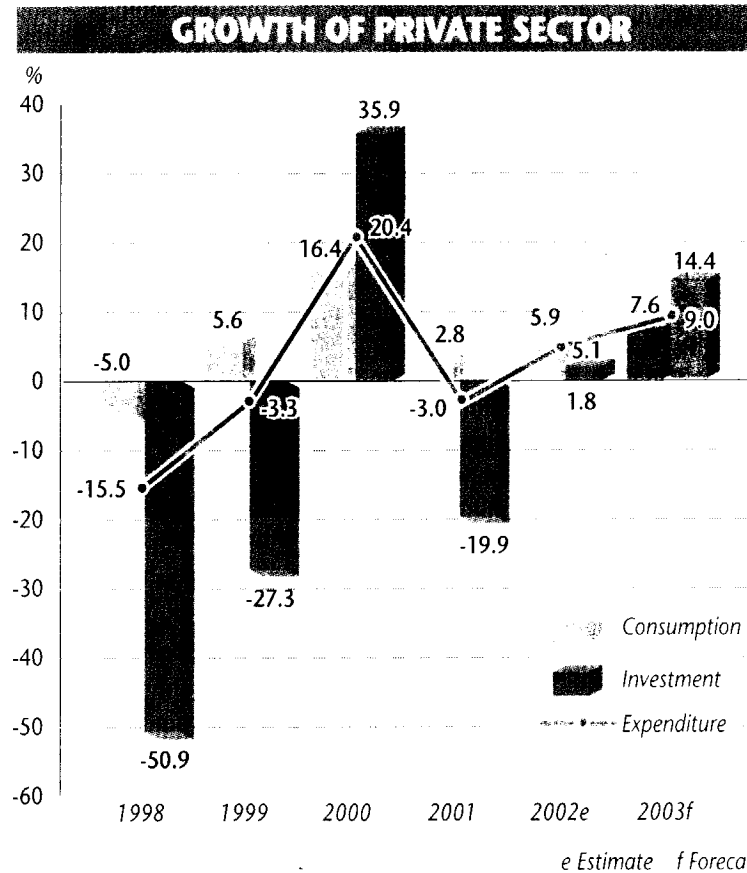
No wonder Dr Mahathir chose the budget to

highlight that "the private sector must now resume its role as the main driver of economic growth".

The call may not be new but it takes on an extra urgency today as the world economy faces a more uncertain prospect in the coming months. The economic recovery in the United States is fragile at best, and the repercussions of another dip in America's growth rates would be negative for an open economy like Malaysia's. Foreign direct investment (FDI) has also declined this year and cheaper production locations like China and Vietnam are continuing to divert some investment away from Malaysia.

"For decades, our economic growth has been overly reliant on external sector developments, FDI and international trade. Growth must now be domestic driven and generated by our own resources as well as greater domestic investment activities," Dr Mahathir said.

Nor can growth be propped up indefinitely by public expenditure. Since the financial crisis, the public sector has been the main catalyst for economic growth through the government's expansionary fiscal policy. Total public expenditure increased by 53% to RM49bil in 2001 from RM32bil in 1997 and



the public sector's contribution to GDP increased to 31% from 24% previously.

"The government cannot continuously implement expansionary fiscal policies," the Prime Minister said, adding that although borrowings were at manageable levels and largely sourced domestically, the government did not want rising fiscal deficits to increase beyond prudent levels.

According to Dr Mahathir, shifting to domestic-driven growth demands a structural transformation of Malaysia's economy. Several long-term strategic plans such as the third

Outline Perspective Plan (OPP3), Financial Sector Master Plan, Capital Market Master Plan, and the Knowledge-based Economy Master Plan have been formulated by the government and are in the midst of being implemented to aid the process.

He said Malaysia should also emulate countries such as China and South Korea in formulating industrial sector strategies, with both adopting different but equally successful strategies to gain a footing in the international marketplace.

Corporate and financial restructuring through agencies such as Pengurusan Danamodal Nasional Bhd and Pengurusan Danaharta Nasional Bhd have succeeded in addressing the issue of non-performing loans, while the establishment of new funds - currently exceeding 40 with a combined value of RM15bil - allow easy access to financing sources at reasonable cost.

The government has over the years provided various tax and non-tax incentives to promote the private sector and in Budget 2003, measures ranging from corporate tax reductions for small- and medium-scale compa-

nies to the option for pioneer companies to qualify for reinvestment allowance have been offered.

In the end, however, it must be the private sector that would need to act and seize the opportunities offered.

"The private sector must be aggressive and venture into new frontiers. Do not take the easy route to reap immediate gains," Dr Mahathir said, summing up the need for an entrepreneurial spirit in Malaysians. "We must be prepared to undertake risks, even in challenging areas," he said.