



MALAYSIA

Counting on Commodities

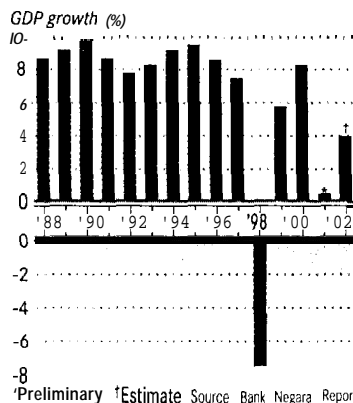
By S. Jayasankaran

The years of galloping Malaysian growth may have vanished. And, indeed, the economy is coming full circle. In 1981, Prime Minister Mahathir Mohamad began moving it away from a commodity-dependent growth model to one powered by manufactured exports produced by multinationals. Now, with an illusory tech story and declining foreign investment, Malaysia is going back to its roots-commodities.

In 1991, Mahathir announced his vision of Malaysia as a developed nation by 2020. It was predicated on 7% annual rates of growth in real GDP terms over the next three decades. And it took off with a bang: Real GDP expansion averaged over 8% between 1988 and 1997. Then the Asian financial crisis struck and everything changed.

"Growth in the coming decades will probably average around 5% a year," says Rajeev Malik, a senior economist at JPMorgan Chase Bank in Singapore. "I will say emphatically that you won't be getting those big growth numbers anymore." Indeed, 4% is the consensus growth forecast for 2002 among private economists-compared to the government's 5% forecast-while GDP growth is expected to be around 5% in 2003.

SLOWING DOWN
Malaysia's GDP growth is simply not what it used to be



The reasons for the slump are twofold—the emergence of China as a competitor for foreign investment and the decline in the pace of world trade since 1997. But China's emergence as a huge consumer nation has also boosted the prices, and hence production, of commodities like palm oil.

October's trade surplus, for example, increased to 4.9 billion ringgit (\$1.3 billion), from 4.8 billion ringgit the month before, thanks largely to a 21% surge in palm oil exports—the highest in three years. And China has already become the largest consumer of Malaysian palm oil this year, pipping India into second place. Given the growing consumption, palm oil prices are forecast to rise 15% to hit 7,500 ringgit a tonne next year.

But the drivers of the Malaysia economy always used to be the exports of electrical and electronic goods, which comprise over half of total exports. That's been falling because of shrinking world demand and the sluggish United States economy. In October, such exports totalled 17 billion ringgit, down 3.2% from the previous month.

What's steadying the economy now are other exports whose global prices have increased for various reasons—oil palm, oil and gas and chemicals, for example. Add that to stronger domestic demand, driven primarily by pump-priming efforts by the government. Kuala Lumpur will record its fifth straight budget deficit, at 4.7% of GDP, for its next fiscal year.

But since such deficits aren't sustainable, Malaysia needs some new growth strategies. At first it was thought to be investment in information technology epitomized by the Multimedia Super Corridor, Malaysia's version of a utopian Silicon Valley located south of Kuala Lumpur. But now the ever-pragmatic Mahathir, who is also finance minister, is trying to boost domestic consumption with incentives aimed at small and medium-scale industries and the rural economy.

Services are the other big area, with enormous emphasis currently being given to tourism and port services.

For all that, however, the economic climate remains relatively benign. Inflation is running below 2%, unemployment is around 3.6% and interest rates have remained stable—at 5.5%, the central bank's intervention rate—for four years. Overall, next year will be better than 2001, says Cliff Tan, a regional economist at Citigroup in Singapore. Back then Malaysia recorded just above zero growth. ■