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We have to move faster for economic recovery to be strong and sustained

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WHAT are Malaysia's economic prospects now? We are still waiting for a strong recovery in the US and the world economy that was projected by most foreign economists.

The world economy has improved but there is still some uncertainty. Why?

The recovery in the US has only just taken root. Its growth is estimated at 2.5 per cent this year, according to the Organisation (of the 30 richest countries), for Economic Cooperation and Development (OECD). US growth for next year has also been revised downward to 3.5 per cent from the earlier forecast of 3.8 per cent.

The European Union is expected to expand by only 1.3 per cent this year, lower than the 1.4 per cent estimated in November and to rise to 2.9 per cent next year.

What does all this mean for Malaysia?

Bank Negara's first Quarterly Report for 2002 was not as optimistic as was expected. The economy is recovering from it as technical recession in 2001 and growth increased by 1.4 per cent this quarter, as compared with 3.0 per cent in the first quarter of 2001 and 0.4 per cent for the whole of 2001.

Prime Minister Dr Mahathir's meetings with President Bush and leading businessmen in Washington in May have significantly boosted overall Malaysian-US relations, particularly in trade and investment.

However the degree of the strength and sustainability of Malaysia's economic recovery is still in some doubt.

First, anyone can see from the continuing revision of global growth estimates that the forecasts of even the experts can go awry.

Then there are still so many imponderables that make even the latest economic projections dubious.

For instance, the projections are dependent inter alia on petroleum prices. This, in turn, is influenced by the prospects for peace in the Middle East.

The longer the US takes to be tough with Israel for illegally occupying Palestinian Territory, the more terrorism is likely to occur in the US, and the greater the Arab pressure to keep oil prices up.

Second, the US unilaterally raised its tariffs on steel imports and farm subsidies. This can cause retaliatory trade wars with other powerful industrial countries in Europe, Japan and elsewhere.

Third, the economic mismanagement in the US is allowing its budget and balance of payments to further deteriorate, and this can adversely affect the sustainability of the weak economic recovery in the US.

Fourth, the low interest rates in the US and Euroland should not be raised too soon and too fast, as higher interest rates could suppress consumer spending and frustrate faster economic recovery.

But with the growing US deficits, overnight interest rate may have to rise from the present 1.75 per cent, which is the lowest in 40 years, to increase savings and investment in the longer term. This can happen around August this year.

Fifth, if the US Administration goes crazy, runs roughshod over international opposition and attacks Iraq, the US Budget deficit will deepen and interest rates will have to be raised to counter inflationary pressures. Thus, the Israel-Palestinian problem should be first settled.

Hopefully the historic meeting on June 7 between Dr Mahathir and Pope

John Paul will hasten the solution of this continuing dangerous conflict.

Perhaps Malaysia could also persuade the Pope to use his great influence on the rich and powerful western Christian countries to be more fair and equitable to the poor and weak nations, especially in international trade and aid.

That alone could reduce the root causes of international terrorism and enhance world peace and socio-economic well being.

Sixth, competitiveness is becoming more crucial to our export potential and sustained economic growth and capacity to pursue greater social equity.

But Malaysia's ranking in the World Competitiveness Yearbook compiled by the International Institute of Management Development in Switzerland was 29 out of the 49 countries surveyed in 2001. For 2002, the ranking has improved considerably to 26. However, this is still just above the mid point of 24.5.

Jose Lopez, President of Malaysian International Chamber of Commerce and Industry (MICCI), which represents about 1,000 companies resident in Malaysia, (mainly foreign), was quick to welcome this improvement. He said that what is important now is to continue with liberal and pro-business policies while emphasising the continued need to improve productivity and quality.

Indeed it is time we reviewed all economic and, especially, business policies and practices to ensure we have as friendly a business environment as possible.

I say as friendly as possible only because we have to ensure that the balance between economic growth and equity is maintained in the context of our National Vision Policies and national unity.

If these affirmative action policies are implemented fairly and effectively, I have no doubt Malaysia can progress up the World Competitive Index, despite the underlying principles of the National Economic Policy (NEP).

But if the NEP principles are not properly administered, then they can be a major drag on Malaysia's competitive capacity, especially with the growing impact of Afta, China and globalisation.

However, our national confidence and competitiveness should not be further undermined by problems of our own making. We already have enough to contend with internationally. We do not need more problems. The recent controversy over the admission of students to public universities based on meritocracy has been widely challenged for its validity and the Government's credibility. We should not have a policy of managed meritocracy.

The considerable opposition to the greater use of English in schools and universities is unproductive. The allegations of slow justice against graft for some big names, undermines confidence.

The confusion over the traffic summons and the public inconvenience caused by Ops Warta II also dampens public and police morale.

And now there is the call from a leading Menteri Besar to lower university entry standards for male students as they are being overtaken by the more competitive female students!

We need to resolve these problems soon in order to strengthen public and business confidence. It cannot be business as usual. We have to move faster, based on genuine and credible meritocracy if our economic recovery and future prospects are to be strong, steady and sustained.

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