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The economic legacy of Dr M

WHAT MALAYSIAN PREMIER DATUK SERI DR MAHATHIR MOHAMAD did in the 80s should have pleased the International Monetary Fund. When he assumed office in 1981, the Malaysian economy was so public-sector dependent it was a structural impediment to progress. The public sector was mired in deficit spending and ballooning debt. At its peak in 1982, budget deficit was running at 15% of GDP. Consequently, total Federal government debt surged to a peak of 101.7% of GDP in 1987.

Precious public resources were being used just to service the debt level. The private sector was stifled, with inadequate incentive structure and an inward-looking business mentality. In the first five years of his administration, Mahathir sought to rectify this anomaly, undertaking structural adjustments with a view to laying the foundation for the future.

He slashed the development spending of the Federal government from RM11.5 billion in 1982 to RM4.7 billion in 1987. The pain of adjustment was severely felt. Malaysia went into recession in 1985 when GDP growth contracted -1.2%. Ironically, what Mahathir did in the 80s was exactly in line with present-day Washington consensus, and he would have been a favourite son as far as the IMF was concerned. Yet, this achievement was overshadowed by his more controversial policy decisions in the latter half of the 90s.

Taking the public sector out of the spotlight

Looking back, we believe Mahathir's decision not to delay the structural reform of the public sector was among his biggest economic policy achievements. Malaysia's economic prosperity between 1988 and 1996 was made feasible because of the efforts to dismantle the structural impediments in the 80s.

GDP growth averaged 9.5% between 1988 and 1996 and the only year that it dipped below 9% was in 1992 when growth decelerated to 8.9%. Such spectacular growth would not have been attainable had the private sector not been regimented to be the economy's growth driver, taking over the mantle from the public sector.

Legacy of unorthodoxy

What Mahathir did in the 80s were (then) considered unorthodox by local standards. Until Mahathir came along, Malaysia had never experienced a 'shock' treatment, such as the systematic rolling back of the public sector. He exhorted locals to increase productivity and efficiency, adopt new technology and explore new business opportunities.

Contrary to some perceptions, Mahathir is a free marketeer at heart. He even once suggested the price for low-cost houses, a politically sensitive matter, be market-determined. Internationally, Dr Mahathir challenged the order of the day when the rich continued to dictate policies that benefit them, with scant regard to the poor countries.

His views on economic cooperation, trade blocs, currency arrangements, technology transfer, the environment and international aid, among others, are well known. It is without doubt that Mahathir will be remembered as an economic heretic, as he dared to challenge policy norms as preached by the IMF and known as the Washington consensus. His decisions to impose capital controls and peg the ringgit exemplify best the legacy of economic unorthodoxies Mahathir is leaving behind.

Capital control and the peg

A popular misconception is that with capital control, all is well and Malaysia is poised to return to its glorious 1988-96 growth path. The truth is that capital control is not a means unto itself. Mahathir knows precisely what the game is all about : with control, comes responsibility.

He knows that to have any chance of reviving the economy to the halcyon days of double-digit growth, Malaysians must redouble their efforts.

In the years subsequent to September 1998, Dr Mahathir literally worked double overtime. He understood the fact that with economic unorthodoxy, Malaysia must work extra hard to convince the international community that the system will be efficiently administered, and that local entities, corporate and financial alike, must achieve internationally-respected operating standards.

Post-Mahathir economics

Any drastic change to the current economic set-up risks jeopardising Malaysia's economic stability. Hence, we do not expect any change in the country's economic architecture in the post-Mahathir years. Specifically, expect Malaysia's economic policies to continue to be guided by the following parameters:

- * Perceptions of sound money policy to prevail.

Authorities will ensure inflation stays low and there is no development akin to a 'debasement' of the currency, such as excessive monetary growth.

- * Malaysia's international competitiveness to be safeguarded and enhanced.

This is not only in trade, but also in attracting foreign direct

- * Resilience to 'shocks' to be strengthened.

Malaysia will continuously seek ways to insulate/ buffer itself from destabilising external shocks, such as energy price spikes.

- * Domestic-oriented spending to be promoted.

Malaysia will continuously seek to stimulate domestic spending to complement the external side.

In a nutshell, post-Mahathir economics is unlikely to differ in substance, although a different style in approach may emerge. Where Datuk Seri Abdullah Ahmad Badawi differs might be in terms of increased deregulation based on his recent pronouncements on centralising the approval for Foreign Direct Investment (FDI) and reducing bureaucracy. This could be a prelude to further liberal deregulation.

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