

11MP goals based on flawed foundations

MalaysiaKini.com

May 23, 2015

By Lee Hwok Aun

COMMENT The just released Eleventh Malaysia Plan (11MP) strives to inspire, cajole and rally us toward 2020. I have no problem in general with slogans, catchphrases, cheerleading, or even a dash of hyperbole. The document has to contain some of that.

However, the mandate to tug at our hearts does not give licence to toy with the facts.

This 11MP handles some data in a bizarre, anomalous manner. The most prominent of 11MP's six multidimensional goals rests on flawed foundations.

And it is difficult to believe that errors and confusions – of a most rudimentary nature – are committed innocently.

I have confidence enough in the capability of our civil service to correctly and carefully present statistical analyses and projections. I suffer a confidence deficit with regard to the independence of this process from political influence.

The first two of the multidimensional goals for 2016-2020 in 11MP read as follows:

1. Real Gross Domestic Product (GDP) to expand at five to six percent per year
2. The Gross National Income (GNI) per capita to reach RM54,100 (US\$15,690) in 2020

Of course, these two goals top the list; they are necessary to achieving a high income status for our country.

And, by now, we may be familiar with the national target of US\$15,000 in GNI per capita, the threshold for qualifying as a high income economy.

Goal No 2 is more definitive – GNI per capita summarises the overall level of economic development – while Goal No 1 constitutes the means to get there. GDP must maintain a certain growth rate to carry an economy to high income territory.

Monitor target growth in real values

But the 11MP goes against conventional practice and basic logic of evaluating income growth in real terms. Instead, the 11MP puts the GNI per capita target in nominal terms. In other words, it does not take inflation into account. This is mindboggling.

It is imperative to monitor and target growth in real values instead of nominal values. If income grows by five percent and inflation raises the price levels by six percent, one is actually worse off. Real income has registered a minus one percent change; it has shrunk.

Let's go back to where this high income business started. The New Economic Model (NEM) in 2010 established high income status as one of three key policy objectives, with the bar set at GNI per capita of US\$15,000. Pass that mark and Malaysia qualifies as high income.

The NEM correctly put this threshold in real terms; that report specified that US\$15,000 in 2020, in real terms, was the equivalent of US\$17,725 in nominal terms (NEM Part 1, page 87). That's about US\$16,500 at today's exchange rate. The 11MP has lowered that target to US\$15,000 in nominal terms, or current prices (11MP, page 2-14).

Growth has fallen behind NEM schedule

The fact is, Malaysia's economic growth has fallen behind the NEM's schedule. But to get back on track requires substantially higher growth rates – which are obviously a very hard sell. Witness Goal No 1: Five to six percent real GDP growth per annum, a believable range.

According to the NEM's projections and aspirations, Malaysia would register a real GDP growth rate of 6.5 percent a year over 2010-2020. We have only achieved 5.3 percent in the first half of this decade. By mathematical necessity, we will need to grow faster than 6.5 percent in the second half, to compensate for the prior shortfall.

Specifically, to remain on track for high income status by 2020, the Malaysian economy must sustain real growth of 7.7 percent per year over 2015-2020. Who would want to deliver that message to an informed, discerning, sceptical rakyat living in uncertain times and accustomed to steady but modest growth? I understand the reluctance to tell that story.

But instead of coming clean and saying that, well, it will be nearly impossible to reach the high income mark by 2020 (but our dignity is not bound up in such status; we're still worthy as a nation), the government slides the goalpost. Instead of the NEM's original high income target of US\$17,725 in current prices, the 11MP now guns for US\$15,000 in current prices, and pretends they're the same.

Now, the empirical discrepancies

Thus Umno-BN can declare success and extract gratitude.

How might we respond to these empirical discrepancies? Some might say, it's not a big deal, these are mere technicalities.

Yes, at one level this is a technical skirmish. Even so, there is a big, suspiciously deliberate aberration that must be addressed. Why target US\$15,000 in nominal terms, instead of in real terms, like any almost fully-developed country would?

But this is far more than an issue of statistical correctness. This government is staking its

legitimacy on driving Malaysia to a high income status, it is claiming credit for ushering us down this last leg to the many splendours of Vision 2020.

Proper reporting and handling of data, at root, testify to the level of honesty, truthfulness and integrity of our policies.

Vision 2020 envisages a society that is progressive, confident, secure, scientific, mature, and virtuous in many other ways.

This government declares interest in leading Malaysia in that direction. Then it effectively commits statistical doping.

Copyright © 1999-2012 Mkini Dotcom Sdn. Bhd
Source : <http://www.malaysiakini.com/news/299358>