

by Datuk Mustapa Mohamed



# What's in Store for Malaysia in 2005?

**As we bid farewell to 2004, we have to take stock of our economic achievements and anticipate the trends of the near future. A look**

**A**S WE enter 2005, I feel it is important for us to take stock of our economic achievements in 2004 and anticipate developments that are likely to unfold this year. By doing so, it will help us understand the risks, threats and opportunities and their impact on the macroeconomic prospects for 2005.

The global economy did reasonably well last year. The Organisation for Economic Co-operation Development or OECD countries grew by about 3.6% in 2004 while inflation remained moderate. However, throughout much of 2004, growth of the global economy was affected by the steep rise in the price of oil, rising from US\$ 38.46 in May to US\$ 55.57 per barrel in October. Since then, the price of oil has fallen, although it is not likely to decline to its January or May 2004 levels.

Rising oil prices remain a key concern for many countries, given the unstable geopolitical scenario in Iraq, Nigeria and Venezuela as well as rising demands from China and India.

Although Malaysia is a net exporter of oil, the impact of oil price increases must be viewed in a wider perspective. As I have argued in my previous article, higher oil prices will increase export revenues in the short term. But when oil prices increase, the cost of subsidy to be borne by the Government will also be higher. Oil subsidies need to be constantly reviewed so that they will not affect the Government's budgetary allocations, especially funds which are meant for financing development projects. However, in the longer term, the impact is not as bullish because of the possible lower global economic growth

and trade slowdown.

In 2005, we anticipate several major economic trends in key countries that would have an impact on the global and Malaysian economies. After years of high growth, we expect China to re-engineer a soft landing. But India's economy is expected to grow robustly. OECD countries are estimated to have a lower growth at 2.9% this year. The Euro Zone economy is still weak, and is experiencing high unemployment. The United States economic growth is expected to be lower at 3.3% in 2005 from 4.4% in 2004. Its trade deficit is expected to grow bigger and if not corrected by the exchange rate, it might urge other countries to slow down exports to the US. For example, China has since introduced taxes on its textile exports. Japan's economic growth is expected to be weaker after a period of recovery. It is likely to slow down to 2.1% this year from 4.0% in 2004.

For Malaysia, we expect our economy to perform robustly this year. The average Gross Domestic Product (GDP) for all of the three quarters last year stood at 7.6% and growth in the fourth quarter is expected to remain strong. We believe that a 6.0% growth in 2005 is within reach. Nevertheless, we do not preclude the fact that 2005 will be a tough year.

These global and regional developments will ultimately mean that the macroeconomic prospect is challenging, and will have a clear impact on Malaysia. Slower global economic growth and uncertainty of oil prices can reduce demand for Malaysian exports. We can also expect fiercer competition for foreign direct investments (FDI). We also have to ensure investor confidence remains high, stable capital flows and steady performance of the stock market.

As for the two emerging economies of Asia - China and India - they account for 40% of the global population of working age and 18% of the global economy, on the basis of purchasing power parity (PPP).

For two decades, their economies have been growing twice as fast as the rest of the world. On present trends, it will take just two decades before their share of the global economic pie matches their share of the global population. Indeed, in a decade, China's economy should surpass that of the US.

Over the next 10 to 15 years, analysts expect the development models of India and China to converge. Both countries will be driving forces in the trade of goods and services, with their exports possibly rising from a combined 12% of the global total trade to 20% in 2010 and 30% by 2030. It is these massive economic potentials that serve to attract further FDI flows into these countries. China, for example, has

this concern is shared by other countries outside Asia as well. But, from another angle, a slow-growing China will demand less primary commodities and as such will ease the recent price hike for items such as steel.

With an annual economic growth of 6% to 7% and total annual exports of over US\$ 60 billion, India will certainly set the pace of economic changes in the region. It is already the leading centre for software, IT and outsourcing activities. The high economic expansion has made it necessary for India to increase and improve its infrastructure so that growth can be sustained. Herein lies the opportunity for other countries to contribute and participate in India's

Trade Area was identified as one of the seven milestones of this integration process. An integrated Asian economy can bring many benefits, both economic and non-economic. The East Asian Community will mean a more cohesive market in this region. This will allow easier movement of exports and imports. As a result, trade will increase. In addition, investment will also increase because regulations will be harmonised to facilitate investment.

Malaysia supports the idea of forging an East Asian Community where the diversity of resources among member countries is more efficiently allocated, depending on the level of development of each member country. A more integrated

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retained its leading position as the top destination for FDI flows. Most significant was the fact that this trend continued despite the decline in the overall FDI flow globally.

Due to its high economic expansion, China has now become a major importing country and this has made many countries in Asia dependent on it for their growth and exports. Despite posing an immense challenge to the region, China's growth brings benefits to Asia. The World Bank has estimated that China held the largest market share increase for imports in its trade with Japan, South Korea, Taiwan, Singapore, Indonesia, Malaysia and Thailand from 1999 to 2001.

The state of the Chinese economy has now become a major concern for many of us. A slowing Chinese economy may mean that other countries in the region will also experience a smaller growth rate. Indeed,

growth process.

I am glad to note that many Malaysian companies have seized this opportunity and are now major players in road and highway construction across India. The Construction Industry Development Board (CIDB), together with Malaysian construction companies, has won contracts to build nearly RM6 billion worth of infrastructure projects in India. Two points can be highlighted from this example. First, there is huge potential to expand the country's export capability and more Malaysian service providers should seriously consider exporting their skills and expertise abroad. Second, government agencies should work together with the private sector to explore new export potentials.

Prime Minister Datuk Seri Abdullah Ahmad Badawi recently proposed the East Asian Community. The East Asian Free

society would not only allow the complementarity of specialised skills and resources, but also bring growth to each member.

It is important that we know the countries in the region well if we are to benefit from such regional economic integration. We should identify opportunities in these countries. I believe monitoring regional development is an important and useful initiative to prepare Malaysia to participate and fully benefit from the East Asian Community. We realise that the task of monitoring global and regional developments that affect a country's macroeconomic performance has become more challenging than ever. At the National Economic Action Council (NEAC), this has become a major function. As such, it circulates reports on global and regional developments on a weekly basis

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to the Cabinet and all ministries.

Malaysia still has a huge untapped capacity for growth, with abundant natural resources and an educated workforce. The next phase of development for Malaysia will require a more focused and concerted effort in enhancing the services sector, promoting higher value-added agriculture and manufacturing products. In this vein, the Government has built up industrial expertise, developed world-class infrastructure including the airport, sea and land network, telecommunications and the Multimedia Super Corridor. I urge the private sector to leverage on this strength to optimise the use of these infrastructure facilities to further bring forth Malaysia as the centre for world-class services. There is a plethora of exportable services which Malaysia has to offer, such as tourism, health care, education, logistics and transportation, outsourcing and shared services.

The 9<sup>th</sup> Malaysia Plan (2006-2010) will focus on these targets, especially

promoting high value-added, high-technology based agriculture sector. Besides the growth objectives, the focus on the agriculture sector is also to improve the well-being and increase the income of the rural sector. This will be done, among others, through a disciplined and efficient public delivery system, a highly productive and competitive private sector and a high-quality workforce. In short, 'competitiveness and efficiency' is a must.

In conclusion, I would like to stress a few major points:

- First, the aspect of risk management. As we expect 2005 to be a tough and challenging year, we can anticipate many risks to our economy. The less bright global economic prospects, in the form of declining trade and investment, could mean a high risk for our growth. We must be able to effectively manage our risk, have a prudent fiscal policy and increase exports.

- Second, growth has to be domestically driven. Therefore, the private sector needs to reassert its role as the engine of growth.

- Third, the cost of doing business. While the Government is committed to enhancing the delivery system of the public service in an effort to reduce the cost of doing business, I urge the private sector to continue to reinvent itself, improve its capacity and capability and be cost competitive. We must always be aware of the cost competitiveness of other regional economies.

- Fourth, benchmarking against the best. Malaysian businesses should no longer benchmark themselves among their peers within the country. They must now think global and compete internationally. Indeed, the Government recognises there are quite a few Malaysian companies that have made good abroad, but they are small in numbers. We must double our efforts so that we can produce Malaysian companies which are globally competitive. It is time for Malaysia to produce some global champions. **mb**

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