

ISIS: Old data used in index on economy

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KUALA LUMPUR: A recent report which describes Malaysia's economic freedom index as having slipped 30 places is outdated, according to the Institute of Strategic and International Studies of Malaysia (ISIS Malaysia).

This was because the report by the Vancouver-based Fraser Institute failed to include the significant reforms and efforts towards greater liberalisation such as the unpegging of the seven-year-old foreign exchange peg, launch of the Ninth Malaysia Plan (9MP) and Third Industrial Master Plan (IMP3), said Steven C.M. Wong, ISIS Malaysia's assistant director-general.

The report by the Canadian think-tank also did not take into account the emphasis on improving the Government's delivery system, which to a large extent ensured greater freedom in the marketplace as well as the banking mergers taking place and increased competitiveness in the country, he said in an interview.

Even more questionable was that the report, entitled the "Economic Freedom of the World 2006 Annual Report" was compiled based on data of more than two years ago during which time Malaysia had embraced significant economic reforms, Wong explained.

The report, which was released last week, said Malaysia slipped to 53rd place in 2004 from 17th before 1997 due to capital controls put in place after the Asian financial crisis and trends in government expenditure and consumption.

The Fraser Institute was set up in 1974 as an independent public policy organisation to measure, study and communicate the impact of competitive markets and government interventions on the welfare of individuals.

"It is important not to overreact to the apparent fall in rankings as none of the (institute's) indices constitute the last word on the state of the economy," said Wong, who is also the Director for East Asia Economic Centre and Centre for China Studies in ISIS Malaysia.

He stressed that Malaysia has been gradually dismantling capital controls set in place in 1998, which was why the economic freedom index was not timely and at best a matter of historical record.

The Fraser Institute's economic freedom index based on 2002-2004 data "tells what happened in the past but fails to provide direction on the present economy or in what direction it is heading", he added.

Another weakness was that in numerous rankings by other agencies, Malaysia was rated very highly in areas such as information and communication technology, which left very little room for further improvements as compared to countries which might be just starting out.

Wong also disagreed with assumptions that Malaysia's reforms were relatively slower than other countries, for instance with China, Russia or Africa, as "we had already done it (reforms) at an earlier date".

He said that statistics used in the report became irrelevant - the Malaysian economy was too dynamic as it was constantly embracing reforms and making changes towards greater regionalism and internationalisation.

For instance, the ringgit's RM3.80 peg against the US dollar was removed on July 21 last year while the 9MP was unveiled on March 31 this year and the IMP3 launched last month.

Wong said the narrow margins between the lending and savings rates among banks in Malaysia "is a benchmark which proves the competitiveness in the finance and banking industry while returns on assets have also improved tremendously among financial institutions".

These changes were left out by the Fraser Institute, which collected data from third party sources between 2002 and 2004 to ascertain the level of economic freedom in more than 120 countries.

"This means it also does not include the latest cut in corporate tax to 27% as Malaysia constantly strives to raise its competitiveness," he said.

Doubts also had been raised over the institute's rankings on China, which was placed 95th when in fact it was the single largest recipient of foreign direct investment over the last decade.

In contrast, he questioned why the United States was always ranked among the top three in most economic competitive surveys but was suffering a huge trade deficit, an area which was of deep concern for the global economy. - Bernama