

Creating a viable domestic economy
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According to Dr Mahathir, ways must be found to increase the contribution of the domestic consumption to Malaysia's GDP so that it can reduce its dependence on the export market (pic: Shiddieqiin Zon)

With global economy uncertainty becoming more pronounced by the day, the strength of domestic demand is crucial for Malaysia's growth prospects.

It is therefore imperative that Malaysia develops a viable domestic economy that would not only be able to withstand the onslaught of the external vagaries but ensure Malaysia's growth trajectory remains unhampered. This, however, does not mean that Malaysia is scaling back to being a closed economy. There is no denying the importance of the export markets for the local economy.

But what it needs to do is to insulate itself against the strong headwinds likely to emerge from the prolonged economic crisis in Europe. The prolonged gloom and doom in Europe would necessitate China to devise more potent measures to support its economy, the absence of which will affect the sentiment of Asian economies, including Malaysia.

In the absence of external support for the Malaysian economy, Malaysia needs to devise strategies that would systematically help it catapult itself towards a growth trajectory without external help.

This can be achieved by increasing the productivity of its populace which will invariably lead to increased income and thus increased consumption.

Domestic Consumption While many may be quick to argue that our population base is relatively small for a vibrant domestic economy to thrive, they fail to see the point, that it is the purchasing power of the populace rather than total population in a given economy that is crucial in driving its consumption.

This views were echoed by former Prime Minister Tun Dr Mahathir Mohamad when chairing a National Chamber of Commerce and Industry of Malaysia roundtable some months ago.

He said then that ways must be found to increase the contribution of domestic consumption to Malaysia's gross domestic product (GDP) so that Malaysia can reduce its dependence on the export market.

He added to achieve this, people needed a higher income which should come by increased productivity. The additional income will be spent locally, thus much of the Malaysian economy will move towards domestic consumption.

A cursory examination of the Malaysian economy suggests that there is an 'apparent underinvestment' and 'apparent underconsumption' or investments and consumption in the country that are still below optimal levels. These suggest there is greater room for increased consumption and investments.

The private sector should be the engine of growth and should stir the country in the right direction by bolstering private investments in order to lead the next phase of economic growth. Economists contacted by The Malaysian Reserve add that private investments are about 10% to 12% of GDP compared to 20% to 30% during the boom years, which

necessitates that we push the private sector to further bolster their investments.

They add that consumption in Malaysia is still low, at about 55% of the GDP compared to 70% to 80% in advanced countries, adding that Malaysians must be encouraged to consume more. On the level of savings in the country, they add that levels of savings are adequate, at about 10% to 12% of GDP, and the excess savings could be used for productive investments.

These impressive statistics should lead to a greater push towards enhancing the investment climate in the domestic economy where returns were higher.

The recent initiatives undertaken by the government the Economic Transformation Programme (ETP) and the Government Transformation Programme have made the domestic economy very attractive.

Several areas identified by the ETP such as education and healthcare would help in the transformation from a middle to high-income nation due its impact on productivity and human capital development.

Lingering Concerns Still, there are lingering concerns with businessmen who are frustrated with red-tape and administrative hassles that they are subjected to compared to neighbouring countries.

The various structural problems in the Malaysian economy such as shortage of labour, inadequate technological infrastructure and bureaucracy would only add to investor costs, adds CIMB Investment Bank Bhd chief economist Lee Heng Gui. He said many Malaysian investors found neighbouring countries offering greater investor attraction as response time was much shorter than in Malaysia.

The sliver lining, however, is that the strategic reform initiatives under the ETP that has been designed to enhance competitiveness and ensure orderly private sector involvement that could bolster investments.

On the consumption front, many economists have already suggested that it is time for Asian countries, including Malaysia, to devise 'safety nets' for its populace in order to encourage them to spend more. It is hoped that with safety nets in place like in developed countries, more Malaysians would be willing to spend without fear of old age, creating increased consumption and private investments in the economy.

A domestic economy that is viable must be one in which its populace would enjoy higher income through higher productivity as the absence of the latter would only lead to be inflationary. Productivity can be enhanced through encouraging consumers to increased consumption of meritorious goods which would have the highest multiplier effect such as education, training and healthcare.

While this would initially increase the aggregate consumption in the economy, it would also help raise their productivity, which would translate into higher income.

The higher income through higher productivity would further increase the aggregate economy in the country which will make Malaysia a dynamic and vibrant domestic economy.

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