

## **Economic fundamentals**

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We often heard the expression “our economic fundamentals are strong” when people commenting on the state of the economy. What really are the economic fundamentals? There is no real specific definition of economic fundamentals taught to the economic students. It is more like a jargon often used by people when analysing on economic-related subjects, perhaps to make them look smarter.

In a nutshell, economic fundamentals include all topics that affect an economy at large. Normally when speak about fundamentals, among others, people always refer to statistics regarding unemployment, supply and demand, growth and inflation.

If one to choose a topic that affect an economy at large, efficiency should be it. The ultimate goal of economics is to improve the living conditions of people through efficient allocation of resources. Every single individuals in the society will act on their best interest or what is termed as optimizing principle. On the whole, the society at large will benefits. Therefore, efficiency is the very basic fundamental influencing the behaviour of the economy. All other statistics are merely a reflection of this basic fundamental.

The first challenge was to decide on what to produce. Of course the decision will be guided by resource endowments. We had seen that primary commodities, including agriculture and mineral, were widely produced in the early post-independence era. We are blessed with fertile lands and suitable climate for agriculture as well as with rich mineral deposits. Production technology then was the one with low skilled labour, sufficient for creating employment for people at large.

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<sup>1</sup> The views and opinions expressed herein are those of the author and do not necessarily reflect the views of MIER.

Over the years, production technologies have improved parallel to skilled development of the people. Main production in the economy shifted towards the secondary sector that is manufacturing. The main source of efficiency is associated with production technologies. This golden era of manufacturing had positioned Malaysia in the world map as one of the main trading nations.

Therefore, the basic fundamental during this manufacturing era was production efficiency. This is the golden era of Malaysia's economic development. The economic agents, including the government, producers and investors, have got the *Midas touch*. Small efforts to improve efficiency bore good fruits. As such, we had seen Malaysia was enjoying a stretch of double-digit growth for a good period during that era.

As the economy further developed, things are getting tougher. There is no more *Midas touch*. Competition is the rule of the day. There are many new comers on the block. We are no longer putting a pinch of salt in a small pail of water but we have to deal with a bigger pond. All in all, we have to constantly strive for new sources of growth. The best advice is always to go back to the fundamental, which is efficiency.

Efficiency can be defined as accomplishing maximum productivity with minimum wasted effort or expense. We can look at efficiency either from microeconomic or from macroeconomic perspective. From microeconomic point of view, efficiency is a straightforward outcome of rational human behaviour. People are normally trying to maximize their benefits by allocating their resources, subject to income constraint and their preferences.

Things become more complicated once we look at the macroeconomic perspective. We are concern on how to allocate resources in the economy so that society at large will benefit. People have different tastes and preferences. Thanks to a system of political democracy. The system allows for our voices to be heard by the rule of majority. As long as the efficiency of the system is preserved, the allocative efficiency in the society is guaranteed.

We have seen capital accumulation, both physical and human, in the environment of political stability successfully charted Malaysia's strong economic boom. By all means,

this success story is not unique. There are many followers subscribed to this success story. As a result, the competition is getting tougher if we do not change the game. We are no longer having the *Midas touch* but the new comers do. We do not have cheap labour as new economies do. We have to change the game. We need to improve our technological capability and productivity. But the fundamental remains the same – efficiency.

Efficiency improvement is not just a continuous process in order to reap the benefit of optimal resource allocation, it has to be targeted deeper into the system. We need to look at every small parts. All processes have to be efficient. This is the main source of competition to bring us into the next level of development.

All systems and processes, from top to bottom, big to small, have to be efficient. Sometimes it is called reforms. Maybe, the word “reforms” has negative connotation as it is thought something similar to revolution. It is like a change by force. For a matter of fact, “reforms” is nothing but efficiency improvement. It has to be an ongoing process for maintaining our competitiveness.

This is a Malaysian dream. This is the real developed nation that we should strive for, not merely a nation with higher income. We have to institutionalize the efficiency principle into our society. Do everything efficiently. The element of redundancy in the system should be weed out. The system should be free from rent seeking opportunity. Members of the society contributing towards inefficiency should be penalized by the system.