Blurred Vision?

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By Mohamed Ariff

Malaysia is in search of new drivers of growth that would lift the economy into the league of high-income countries, somewhat in sync with Vision 2020. A burning question in the minds of many is whether Malaysia can arrive at Vision 2020 on time.

Much would depend not only on the pace at which the economy will move from now on but also on the definition of "high-income" economy, which keeps shifting. Since developed country status is measured by per capita gross national income (GNP) in constant prices, factors such as population growth, exchange rates and price levels would also matter significantly.

The goal post, in benchmarking terms, has been shifting, with the *average* per capita income in high-income countries rising from US$19,098 in 1990 to US$37,572 in 2007, while the *minimum* high-income per capita has risen from US$7,620 to US$11,455 correspondingly.

Vision 2020 was designed on the premise that the economy would grow at an average rate of 7.0 per cent per annum from 1991 onwards. But growth has slowed down considerably after the Asian financial crisis of 1997-98 to an average of 5.5 per cent (1999-2008).

Malaysia's growth trajectory has deviated from the Vision 2020 growth path. According to estimates, the projected gross domestic product (GDP) of RM525 billion for next year will fall short by 24 per cent from the initially envisaged level of RM694 billion. In other words, the shortfall in aggregate income next year will amount to a hefty RM169 billion.

The gap between the actual growth trajectory and the Vision 2020 track will widen, if the economy were to grow at a slower pace of 5.4 per cent per annum between 2011 and 2020. At this rate, Malaysia's per capita income will rise to US$15,340, slightly above the projected new *minimum* benchmark of US$14,818, by 2020.

Thus, although Malaysia can technically get into the high-income club in 2020 by garnering an average growth of 5.4 per cent, it would still fall short of the original Vision 2020 target of US$17,000 per capita.

In real GDP terms at constant 2000 prices, aggregate income would rise to RM887 billion in 2020 (assuming that the economy will grow at 5.4 per cent per annum) which however would be way below the Vision 2020 target of US$ RM1.37 trillion, a shortfall of RM479 billion or 35 per cent.

To reach the Vision 2020 target, the economy will have to grow, between 2011 and 2020, at an average annual rate of 7.0 per cent, which is clearly a tall order. Understandably, the Government's focus seems to have shifted from Vision 2020 to

“High Income Economy”. It is on this basis that the Economic Planning Unit (EPU) seems to be working on a target of 5.5 per cent annual growth under the Tenth Malaysia Plan.

Malaysia’s estimated *potential* growth has been shrinking from 7.0 per cent in the late eighties to 6.5 per cent in the early nineties to 5.5 per cent now, as the country has been losing its competitive advantage vis-à-vis the newcomers, including China and Vietnam, in labour-intensive assembly manufacturing. The high growth rates of 8-9 per cent seen prior to the Asian financial crisis were evidently unsustainable, as these were input-driven, and not productivity-driven.

Vision 2020 was certainly a great marathon idea, but it unfortunately started off with the wrong foot, running the marathon race like a sprint at high speed. No wonder, the economy collapsed in 1998 under the weight of the financial crisis.

This is not to deny that rapid growth was necessary, but there was a policy failure to ensure that rapid growth was driven by steady productivity gains, which would have made it sustainable. Instead, the authorities took the shortcut by allowing foreign workers to come in droves, in an attempt to maintain the country’s competitiveness based on a low-wage regime (and not merely to meet labour shortages in the so-called 3D - “difficult, dangerous and dirty” - jobs).

Herein lies the paradox of Malaysia trying to keep wages low (to remain competitive) and wanting to be a developed country, missing the point that labour costs would have stayed low, despite rising wages, if there were productivity gains.

In the absence of the massive influx of foreign workers, wages would have risen and employers would have resorted to labour-saving technology to boost productivity (to rein in labour costs). Malaysia would then have automated and moved up the value chain through industrial upgrading. Alas, Malaysia took the wrong turn in the early 1990s.

Ironically, the long-term vision was undermined by a shortsighted growth strategy, which was pursed single-mindedly with a high premium on short-term growth at the expense of long-run goals. Malaysia had inadvertently shot itself in the foot.

In a sense, the “High Income Economy” is a watered-down version of Vision 2020, as Malaysia has to settle for a lower GDP (RM887 billion instead of RM1.37 trillion in real terms) and a lower GNP per capita (US$15,340 instead of US$17,000) in 2020. Nevertheless, if all goes well, Malaysia can still join the league of developed nations by 2020 with a per capita income higher than the projected minimum (US$14,818) for this category. All this would make sense, only if high income is linked to high productivity.

But, it is wrong to look at developed status purely in terms of dollars and cents. There is much more to it than simply GNP per capita: quality of life, economic freedom, human rights, human development, rule of law, social justice, meritocracy, best practices, and pollution-free environment, to mention a few. In these terms, we have a long way to go.

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