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Old maps, new territories

‘Maps’ used to manoeuvre Malaysia's economy may be outdated

Tableau Economique - By Steven C.M. Wong

IMAGINE a foreigner trying to drive around Kuala Lumpur today not with a new global positioning system device but a roadmap from the 1950s. With entirely new highways, buildings, streets and townships, he or she would be very confused and not get very far.

Yet this could be exactly what we are expected to do as we manoeuvre Malaysia’s economy into the next decade. We are using maps from the past to guide us through the uncharted territories of the future with new measures, new thinking and new ways of doing things.

As a result, we risk being stuck or getting lost. Both outcomes are wholly undesirable. In this and the next two instalments, I want to think out aloud as to how we can be better equipped to move forward.

Let me begin with the measures that we use. The most widely used gauge of economic output is gross domestic product (GDP). This is supposed to be an indicator of our economic welfare and its growth is believed to be indicative of how well we are doing.

GDP growth is so scarce these days that governments struggle for, and economic analysts – who really ought to know better – argue about, practically every decimal point of it. They read significance into changes even where there could be very little.

Take the D in GDP. This means that only goods and services produced within our domestic borders count towards our economic welfare. Think about that. This was no doubt true in the distant past but is it still true today?

Output networks scattered

Economies today are transnational as never before. Global investments have been made for over three decades and have been on the rise until last year. Production networks are scattered across the planet. Offshoring and outsourcing have become commercial facts of life.

We still may not live in the completely “flat world” that Thomas Friedman posits but it is a pretty close approximation. Malaysia’s economy, already one of the most trade-oriented in the world, is now seeing more and more of its capital finding homes abroad.

Malaysian companies have so far invested over US$7bil in Indonesia and more than US$2bil each in China and India. So important is cross-border investment that the Malaysian Industrial Development Authority has just started an entire division dedicated to it.

While our economy is increasingly dependent on the outside world for markets and investment, the primary measure of economic welfare still looks within. And this is true not just of Malaysia but also many countries that have made even more foreign investments.

Take another factor critical to our success: private investment or, more technically, gross fixed capital formation. Private investment basically comprises amounts spent on land and buildings, plant and machinery, equipment and stocks.

If there is one thing the Malaysian Government and all private sector economists agree on, it is that private investment – especially technology-infused and export-driving foreign investment – is essential for the dynamism of Malaysia’s economy.

What about human capital investment then? The Government has rightly given this strong emphasis and for a great length of time. It is key to increasing knowledge, value add, moving up the value chain and, ultimately, higher incomes.

This is not to say that fixed investment is unimportant. Our asset per worker ratio, while rising, is still low. Without raising this, and reducing dependence on foreign labour, it will be near impossible to increase productivity and incomes for Malaysians.

Education expenditure

The billions of ringgit that we spend on human capital, however, are not among the primary variables that are captured and analysed. These absolutely critical expenditures are, instead, treated in standard national accounts as just a part of annual consumption.

If I were the chief economist of Malaysia Inc, I would insist that education expenditure be among the very first data to analyse and plan around. The World Bank thinks so too and has an estimate of net savings that accounts for public expenditure on education.

I would also want to keep close track of Malaysia’s investments in software and intellectual capital. Australia’s Productivity Commission, for example, has computed the country’s stock of intangible assets and found it is almost half of all its tangible assets.

If our ambitious plans come to fruition, we should have a great deal of intellectual property to sell. This may be artwork, books, computer software, music, financial products, upmarket shoes or web services. Form does not matter: the commercial value that they command does.

Other technical problems can also misinform and misguide us. The way the output of new services is calculated, for example, is very important. So is the way we treat price changes when there are real changes and quality improvements in products and services.

But the point of this article is not to wade into the intricacies of keeping good statistics. It is to make us aware that the maps we are using may be outdated or, at the very least, incomplete. Those writing Malaysia’s 10th Malaysia Plan might want to take cognizance of this.

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