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Keeping growth momentum

By Dato' Steven Wong

Labour market reforms must be undertaken to empower Malaysian workers and ensure sustainable wage and income growth.

GLOBAL economic growth looks to be scaling to an eight-year high of 3.8 per cent or more in 2018, after a surprisingly strong 2017.

Increasing manufacturing activity, investment, and, pleasingly, trade in the last 12 months have benefited a large swathe of advanced and developing countries, including export-oriented ones such as Malaysia.

These are anticipated to carry through into this year, something that the Organization for Economic Cooperation and Development (OECD) rather blandly refers to as "stable growth momentum" and one global investment bank describes as being "as good as it gets".

Oil producers have not had much fun but have seen prices strengthen in 2017.

The agreement by Organization of the Petroleum Exporting Countries members to cap production in 2018 could see an improvement in their fortunes.

Hopefully, this will not distract them from undertaking domestic economic reforms.

The latter, however, does not factor the United States, which has become a major oil producer roughly on a par with Saudi Arabia and Russia.

On a scale of political and economic importance from zero to 10, this development rates at least an eight or nine.

The critical question we should be asking then is whether we are out of the proverbial woods.

After a decade horribilis, starting with the global financial crisis in 2008 and followed by a string of slow and stuttering years of recovery, do we at last have a clear run to sustainably pile on jobs and real income numbers?

For the moment, the answer is "no" or a "still too early to tell".

No international organisation is prepared to declare an unambiguous end to the sluggishness that has plagued the world economy over the last 10 years, and has either largely or partly been responsible for the political shockers that we have seen.

OECD countries have just seen their rates of unemployment return to pre-April 2008 levels.

There are, however, still about 10 million more bodies out of work than a decade earlier.

Job growth is still too low and uneven. And despite the stronger pick-up, the World Bank notes that nominal and real wage growth is still lower than pre-2008, not helped by continuing excess capacity, labour market and technological factors.

The only clear winners from the present momentum in economic activity into 2018 are corporations and their high net worth owners.

Money market conditions are still easy and bond yields low, despite normalisation (read hiking up) of US interest rates.

Trump's administration, the detailed implications for the US economy and for its partners will need to be clearly understood (that cannot be done here).

US tax cuts are generally positive for the world economy, just as the George W. Bush tax cuts in the previous decade were.

This time, however, they raise the threat of ballooning budget deficits, and very possibly heavy-handed government actions to contain the negative trade consequences, something that the Trump administration has said that it will do.

Along with record-breaking outsized debt levels, 2018 economic growth is not without substantial risks. Indeed, it could be argued that this growth is being fuelled by the taking on of additional risks.

If vast numbers of new jobs are not created and nominal and real wages do not rise as expected — something that new automation technology is acting against — their situation could be seriously worsened.

US corporations and top earning individuals will be big beneficiaries, especially as any additional interest costs will be tax deductible (even though dividends will not).

The burden of tax cuts is therefore likely to fall on middle- and lower-income earners.

Countries like Malaysia are riding the wave and benefiting from the growing pick-up in global economic activity.

The key is to stay really alert to the trends and the risks and to deepen market-based economic reforms and good governance practices while the door is still open.

The country should have its radars focused on the US and other Western economies so as to detect positive and negative changes.

At the same time, labour market reforms must be undertaken to empower Malaysian workers and ensure sustainable wage and income growth. This period of respite offers opportunities to make it happen provided they are not frittered away.

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