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Broaden sources of economic growth

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'TWO-SPEED' ECONOMY: How do we explain the sombre mood when the numbers look good?

AS far as numbers go, recent economic developments have been quite promising. The government's forecast of five to mid-five per cent of gross domestic product (GDP) growth this year, initially thought ambitious, has been backed by a slew of independent banks and stockbroking firms' economic assessments predicting another buoyant year. The latter are advising clients and, therefore, have to be sober and balanced.

Naturally, there are issues. Rising cost of living has been an enduring complaint. So has the scaling back of energy and food subsidies, more of which are promised this year and the next. And the introduction of the Goods and Services Tax (GST) next year has also drawn public ire as the government looks to raise more revenue. Not everyone expects to have a good time this year and next.

Going by the ubiquitous GDP growth measure alone, however, things appear set. GDP does not describe the total health of an economy by a long shot and is increasingly likely to be a mis-indicator as economies increase in sophistication. The fact that output is increasing, with even manufactured exports kicking-in to take up any slack in domestic demand, is welcome indeed.

Investment trends have also been greatly encouraging. Foreign interest has returned and in many new and exciting areas. It is a pity that actual investment implementation data is still not reported and analysts are forced to rely on approvals alone. Assuming that there is no big difference, however, aggregate demand and exports should pick up down the road.

For all of this, confidence levels remain tentative, even downright gloomy. The Association of Chartered Certified Accountants' (ACCA) Global Economic Conditions Survey (GEC) released last week picked up some of this, with two-thirds of their Malaysian business and finance professionals reporting negative sentiments about the economy.

A few months earlier, the Associated Chinese Chamber of Commerce and Industry of Malaysia (ACCCIM) reported that two-thirds of their members felt pessimistic and expected the economy to "struggle" until 2016. How do we account for the divergence between these perceptions and what appear to be the realities on the ground?

The typical response of government officials has been to dismiss the surveys and those responding to them (They seem to be more accepting, however, when the findings agree with the sanctioned version).

Still, it is true that surveys are only as good as the manner in which they are carried out. If sampling methods are not representative, neither will the results be.

Even surveys that are conducted totally by the book have the element of sampling error. No survey, no matter how good, can be regarded as definitive. This is particularly so given that some savvy quarters are conducting surveys to tip the scales in their favour. As Indonesia's recent legislative elections show, even numerous and consistent polls can and do mislead.

To say that those who answer surveys are ignorant is not a legitimate argument. Critics of these surveys do not know this for a fact and can only surmise based on respondent profiles. In the two surveys cited earlier, one would have presumed that ACCA and ACCCIM members would be in a position to give good informed opinions about the economy.

Though initially there were negative sentiments about the economy by some quarters, a slew of independent banks and stockbroking firms' economic assessments are now predicting another buoyant year.

Given that there is really no reason to believe there are survey defects, what then would explain the divergence between opinions and the apparent unfolding reality?

A good part of the answer could be that the present sources of economic growth are not well distributed and broad-based. Output growth is concentrated in certain sectors, such as infrastructure, construction and oil and gas, while the rest of the economy, say property and old manufacturing, is going nowhere.

This "two-speed" economy would seem to accord with the observation that the public sector has played a driving role in stimulating economic growth. Much economic activity has been Treasury backed. Private company executives have also been heard on occasions to complain about government-linked and politically-connected companies securing the lion's share of activities.

This may explain why the general mood is sombre although the numbers look good. To the extent this is considered to be a problem, the start of the solution would be to think about diversifying the economic growth sources. Understandable as they may be, perhaps the actions to date have been overly selective and insufficiently inclusive.

Another round of genuine liberalisation and incentivisation may be what the doctor ordered to lift the many out of their psychological and actual doldrums.

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