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Facing economic trials ahead

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HARD REALITIES: *Lower commodity prices are beginning to hurt exporters, like Malaysia*

WHEN I started working in the early 1980s, developed economies were responsible for 75 per cent of world economic growth. Today, as I approach retirement age, they contribute less than half.

By growing at roughly twice the rate of high-income ones, dynamic Asian economies - China, especially, but Malaysia included - account for a greater share of their own growth. This is laudable.

High-income economies, in contrast, plagued by ageing populations, and low investment and job creation rates, and obsessed with financial paper shuffling, seem to have lost their mojo. Once the technology gap closes, what is left of their dominance will also disappear.

The World Bank's Global Economic Prospects (GEP) 2015, released last week, however, indicates rough times ahead for emerging economies. It predicts an uncomfortable road ahead for commodity exporters like Malaysia.

As usual, not many Malaysians are paying any attention. So determined are they to grab or defend political power, and tear out the hearts of their opponents in the process that the bigger picture is entirely lost on them.

The first transition that the GEP points to has already been felt on our shores. As lower average commodity prices, including oil, have set in, domestic economic activity has begun decelerating.

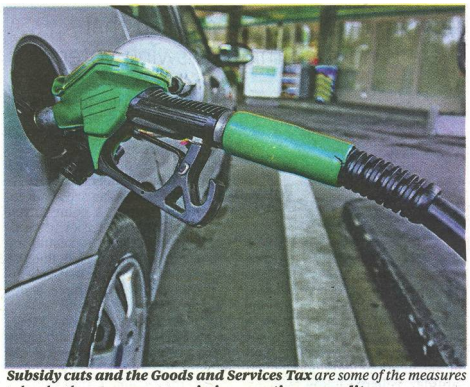
Coupled with shrinking trade surpluses and sharply weakening currencies, the prospects of economic and financial shocks are rising accordingly.

Were it not for government-initiated projects, somehow disguised as private investment, this slowdown would be that much faster.

Financing these projects is also deemed private, but are really off-balance government liabilities.

History teaches us that any fool can spend money, whether for grandiose projects or essential ones. Determining when such projects are affordable and how to make them financially sustainable is the task of the wise one.

The second transition has also been expected, and that is the rise in United States interest rates. Having ceased unconventional quantitative easing (QE) in October last year, the world is now waiting for the interest rate guillotine blade to fall.



Subsidy cuts and the Goods and Services Tax *are some of the measures taken by the government to* ***rein in operating expenditure.***

Much of the US$3.5 trillion (RM13 trillion) in liquidity that the US Federal Reserve created in the post global financial crisis (2009) era found its way into the coffers of fast-emerging economies, including Malaysia.

For five years, it drove down the cost of borrowing and ignited asset markets in the farthest corners of the world. Malaysia, like so many others, fed greedily (i.e. borrowed) at the trough of easy credit.

Now, the increase in the supply of liquidity has come to a halt. The European Union and Japan have stepped in with their own QEs, but those too, will have to eventually end. The cost of credit will, therefore, soon rise, and this has set off a scramble for US dollar assets, reversing the trend of the past five years.

The Malaysian government has absolutely done the right thing by seeking to reduce its fiscal deficit.

Starting with subsidy withdrawals, followed by the Goods and Services Tax, the budget rebalancing of the government has been hugely unpopular and the administration continues to be politically wounded by them.

The question now is not whether it should have, but whether this is a case of "too little, too late".

These efforts could have been made less painful on the public if harder decisions had been made to rein in operating expenditure. As in many places, however, policy elites are not used to curbing their own excesses, only others'.

The GEP vindicates actions that have been taken in the past two years. The Malaysian public will, naturally, not appreciate the bigger picture. Opposition political parties will refuse to. Necessary, though, it has been.

But, the Malaysian economy is not out of the woods by a long shot. The accumulated stock of debt and associated liabilities remains highly elevated and it even looks like + ramping up. Too little has yet been done to dial this down.

The fact that most of the debt is denominated in local currency is some cause for comfort. Some commentators have forecast a Greek-like tragedy for Malaysia, but this, perhaps, displays more of their ignorance than intended.

Recession or deflation is never enjoyable, but it is much less so when political infighting is at the expense of good governance. Whoever happens to be in the driver's seat, hard realities must be grappled with amid fluid and volatile conditions.

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