

Malaysia's Competitiveness Ranking Confirms Our Economic Policies

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MALAYSIA'S drop of one position in the World Economic Forum's (WEF) recently announced Global Competitiveness Index (GCI) must be seen for what it really is – not one step backwards but many forward in terms of global confidence in the economic policies and future of the country.

Given the pessimism that seems to pervade just about every nook and cranny of this country – due in no small part to petty and tiresome domestic political mudslinging – it is difficult to many who can find a speck, let alone a spark, of optimism in the current administration's policies.

In an environment of ever growing cynicism, favourable news is heavily discounted and downbeat reports and rumours magnified. This had led public reaction to the 2007 Budget, one of the most generous, substantive and ambitious in years, to be muted.

The GCI rankings, however, tell us a radically different story. They tell us that the world community sees Malaysia much more positively than we do of ourselves, and that it values what Malaysians are devaluing.

“Malaysia, the WEF Report says, “has one of the most efficient economies in the region with flexible labour markets, relatively undistorted goods markets and public institutions which in many areas (e.g. rule of law, the legal system) are already operating at the level of the top performing new EU members.”

Lest anyone forgets, the WEF is nobody's lackey. A report card like this cannot be bought for love of money, especially not with as many professional reputations on the line. The world class economists associated with the project are among the best there is.

Only five economies in East Asia rank ahead of Malaysia's 26th place: Singapore (5), Japan (7), Hong Kong (11), Taiwan (13) and Korea (24). Malaysia's close proximity to Korea, which has, for the last 20 years been a development model for us, must be especially satisfying.

But note also that of these five economies, only three had improved or unchanged rankings. Japan and Hong Kong rose by three places each, while Singapore remained unchanged. Both Taiwan and Korea lost five substantial positions.

Even China, holding 54th position and an intense competitor to many exporting countries like Malaysia, fell six places.

Against this backdrop, Malaysia's performance can only be regarded as very credible. To stay more or less in place when many others are falling away speaks well of a country and Malaysia should not be shy of receiving its laurel.

As with all rankings, however, a country cannot afford to sit on that laurel. A competitiveness race is only ever contested, it is never won.

It should be noted that Indonesia shows one of the most impressive improvements of any country by leaping 19 positions to 50th place. Further a-field, Turkey went from 71st to 59th position in a single bound.

With countries capable of showings such as these, it should be noted that complacency is the arch enemy of competitiveness.

To be sure, competitiveness rankings, no matter how well constructed or widely followed, are never the last word on the subject. There will often be differences of opinion in the interpretation and weighting of ranking criteria.

Malaysia, for example, occupies 31st position with respect to the macroeconomy criteria, lower than its overall 26th ranking and largely because of the federal government budget deficit.

One might ask why the deficit is allowed to negatively impact Malaysia's competitiveness, especially when the figure, which, at 3.8 per cent of gross domestic product, is not excessively large, is being progressively reduced, and there is more than enough internal savings to finance it.

Compare this with Algeria, which is ranked 1st in the macroeconomy category. Its huge budget surplus, due to its significant oil exports, must be seen in the context of a country where 25 per cent of the population lives below the poverty line and 22 per cent of the labour force is unemployed. If Malaysia had these figures, it would be in absolute chaos.

Still, for all the quibbling that can go on, the GCI provides us with a scorecard of how well we are doing. We should appreciate the enormous efforts that go into this exercise and follow it closely.

The message for Malaysia arising from the 2006 GCI is clear: the Malaysian government must stay on course while greatly accelerating the speed.

There are many in positions of power who would like us to return to the bad old spendthrift days so that they can enjoy even more fortune. The government must, however, continue to exercise the utmost care in its spending, pouring money only in areas that make sound economic sense and that benefit the *rakyat*.

The government must also continue to liberalise the economy to ensure that markets are undistorted and business-friendly. Of late, there have been a growing chorus of voices crying for more protection and subsidies.

Follow this path and we can be assured of being hit where it hurts the most: first, in our long-term productivity and competitiveness and followed by declining economic growth and standards of living.

The country also continues to be plagued by low scores in government bureaucracy and corruption. Granted, it is not easy to change large administrative systems in a short period of time. There have been improvements that may not have been adequately recognised.

But taking all of this into account, it remains that many private corporations still consider governance to be a major issue. Decisive and marked improvements must continue to be made.

Finally, Malaysia will not be advancing up further up the GCI ladder of rankings unless it makes marked improvements in health and primary education and higher education and training. These have received a great deal of attention by the government but, arguably, the outcomes have been greater quantity rather than quality.

Competitiveness, indeed development as a whole, rises and falls with the qualities of Malaysians that will populate the country in the future. If all they know is the politics of hatred and anger and not the economics of cohesion and prosperity, we are all, indeed, in for a hard and troubling time.

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