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Malaysia's high-income goal - motivational or unrealistic?

Malaysia's high-income goal – motivational or unrealistic?

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Comment

OVER a week ago, Economy Minister Rafizi Ramli said that Malaysia could surpass the World Bank's high-income nation threshold by 2026 if the country could sustain annual growth of over 4%.

We have heard it all before. The government has been singing the same old song for at least a decade, but achieving the high-income dream seems further, not closer.

New growth targets are set in recent Malaysia Plans to break free from the middle-income trap, but attaining them is another matter altogether. What kind of a high-income nation we aspire to become, you might ask.

To be fair, Malaysia is getting closer to the World Bank's high-income threshold. The gap between Malaysia's gross national income (GNI) per capita and the threshold has declined steadily over the past decade amid a slew of market-friendly policies.

The government has been mainstreaming high-quality issues, such as climate change and inclusiveness, in its fiscal formulation to improve Malaysia's growth prospects. The move yielded positive results after the Global Financial Crisis.

We cannot deny that Malaysia has tremendous growth potential to enter the rich nation club so long the country embraces higher wages, a wider tax net, intellectual property rights-led growth and higher services exports in its productivity matrix.

In reality, Malaysia's growth momentum is no longer as sizzling hot as it once was. Malaysia's GNI per capita has been trending sideways since 2015, but so are many other countries amid the prolonged United



GDP projection: A worker at a construction site in Penang. Bank Islam is pencilling in growth at 4.5%.

States-China trade tensions.

Since Malaysia is ageing faster than most countries, surpassing the high-income threshold is only the beginning.

The weakening US dollar/ringgit is a concern as the movements of the greenback matter in determining a country's GNI based on the Atlas method.

If such an unfavourable foreign exchange environment persists, Malaysia's wage-to-gross domestic product (GDP) must exceed official projections.

As it stands, the latest government data shows that Malaysia's wage-to-GDP was unwillingly reverted to pre-2015 levels due to a spike in the unemployment rate during the pandemic.

If wages must go up at a speedier rate, so will demand-pull inflation and, subsequently, higher interest rates and overall borrowing costs in Malaysia.

Where does this lead us to? Higher subsidies. The government must either widen the application of subsidies to tame rising prices or allow inflation to feed into higher wages.

However, the situation is not as straightforward amid supply-induced inflation. As global oil prices remain elevated, higher inflation may not necessarily push wages higher. This author will address this issue in the subsequent part of this article.

Now, here is the hard truth: mathematically speaking, Malaysia will likely surpass the high-income threshold by 2026.

As it stands, Bank Islam is pencilling in Malaysia's financial year 2023 growth to come in at 4.5%, and subsequent years should be somewhat higher than in 2023.

Our key assumption is that the global economy can circumvent a full-blown economic crisis before 2026. While the probability of an impending crisis is much higher due to a shortened post-pandemic global business cycle, pushing for "at least 4% year-on-year real GDP growth" can be intimidating.

Even if Malaysia eventually "graduates" from the middle-income trap, the economy may fall back into the upper-middle-income bracket again sans solid growth rates.

Take Panama, for example, which was able to enter the rich club but fell back to the lower income bracket in 2020 due to the pandemic. The country eventually recovered from the crisis and re-entered the high-income bracket in 2021 but at a level far from comfort.

Panama and Chile had around the same income level as Malaysia in 1988. Malaysia could not sustain its growth rates post-Asian Financial Crisis and was reluctantly stuck in the middle-income trap. Chile entered the rich club in 2012

and stayed on to date.

Many economists and commentators have lamented the reasons for Malaysia's "sluggish" growth. In this author's view, what is more concerning is not what needs to be done.

Rather, what was the rationale for mainstreaming high-quality/income nation issues into our policies, such as gender equality and income inequality, which could jeopardise Malaysia's future growth rates in the first place? Wouldn't these policies lead us to where most high-income countries are now?

To be clear, we must embrace these issues eventually. Perhaps, it is premature to do so because it would make it harder for Malaysia to re-industrialise and sustain high growth rates.

Besides, mainstreaming these high-quality issues could yield negative unintended consequences such as low birth rates, debt-growth nexus mismatch and deflation.

The main reason why this is the case is that these metrics carry their respective constituents and may go against one another in the pursuit of growth, which will, in turn, complicates public policy formulation.

Considering that Malaysia is still a young and developing economy, perhaps it is apt to reprioritise these policies for now.

Suppose we are serious about achieving the high-income nation status. In that case, it is more pragmatic to gather our efforts into pushing for higher growth rates so that Malaysia can not only surpass the threshold but also stay in the rich club for the long haul.

Of course, it is easier said than done. Many of these high-quality policies have been embedded into subsets of Malaysia's policymaking, so removing or diluting their influence can be politically sensitive and impractical on many accounts.

Considering the arguments stated above, this author opines that Malaysia's high-income goal is a case of "so near yet so far".

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