

PM says economy at risk from weak GE result

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By Stuart Grudgings, Reuters

Prime Minister Najib Abdul Razak has warned that nascent reforms can't be done "overnight" and that South-East Asia's third-largest economy risks slipping backwards if he does not win a strong majority in an election he must call within weeks.

Najib said a reduced parliamentary majority could weaken his drive to curb Malaysia's budget deficit and raise investment, and even cost him his job.

"A strong government is necessary for us to accelerate the process of transformation in this country," Najib, who is also finance minister, told Reuters.

The election, shaping as the closest in more than 50 years of post-colonial history, must be called by the end of April.

"A weak government means instability and uncertainty and a country can ill afford that kind of scenario for the next five years given the external economic situation that's going to be between weak and rather uncertain."

Convincing Malaysians that his government is "transformational", as 59-year-old Najib puts it, is crucial to the ruling coalition's chances.

The BN is facing a confident opposition alliance led by former deputy prime minister Anwar Ibrahim, who says Najib's reforms have stalled and who is tapping into a potent desire for change after 56 years of rule by a coalition led by the dominant Umno.

Najib's coalition, helped by economic growth that hit 5.6 percent last year and its own deep financial pockets, is favoured to win against a fractious three-party opposition. But there is uncertainty over the outcome, helping make Kuala Lumpur's stock index Asia's worst performer this year.

Najib has delayed potentially painful reforms to wean the country off dominant oil revenues and stem rising debt.

He signalled that those steps would not be rushed through even if he formed a stronger government than the one that emerged from the 2008 election, when the BN lost its two-thirds parliamentary majority for the first time.

"If you try to do it overnight like some countries are doing, there's a massive contraction of the economy," he said.

"We cannot afford that. We have to be mildly expansionary in our policies but fiscally responsible."

No dividends from Arab Spring

Malaysia's budget deficit fell to 4.5 percent last year from more than six percent when Najib took office. Its debt has crept up to around 53 percent of GDP - close to a self-imposed limit of 55 percent - from 43 percent in 2008.

Najib has overseen a deluge of handouts to poorer Malaysians in what opposition politicians call thinly disguised vote-buying. Najib counters that the opposition's plans, including free university education, would send the deficit soaring.

"The word 'change' has been abused so many times. As you know with the Arab Spring, there were no dividends," Najib said.

Taking power in 2009, Najib staked his fortunes on reforms aimed at spurring growth, increasing transparency and dismantling policies that favour majority Malays but which have alienated minority Chinese and Indians.

His flagship policy is the US\$444 billion Economic Transformation Programme (ETP), which aims to double per capita incomes to US\$15,000 by 2020. The ETP has won initial praise from investors, although it remains to be seen if private investment can play as bigger role as hoped.

Najib's reformist ambitions are widely seen as having been curbed by conservative interests within Umno. He has announced few major steps to roll back ethnic privileges that distort the economy and are seen as favouring the elite.

Najib said that a "vast majority" of government contracts are now awarded through open tenders and that government spending is increasingly based on needs rather than race.

Political pundits expect that an unconvincing election win for Najib will result in a leadership challenge later this year from within Umno, possibly from his own deputy Muhyiddin Yassin, who is seen by markets as less reform-minded.

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