

## **LETTER | Is Malaysia's current economic crisis foretold?**

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LETTER | The country's economy, which was already reeling from the shenanigans known worldwide as 1MDB was brought to its knees by Covid-19, followed by a series of continuous ill-advised policies and misguided economic decisions and the lack of a plan to deal with the rising costs in living

Given the extraordinary nature of the pandemic-induced crisis, excuses could be given for the bungling attempts at the start in the handling of the pandemic as fiscal and monetary policymakers are working without a playbook.

The government responded with a massive relief package, equal to 43.5 percent of the country's GDP although there is speculation, in the absence of actual figures revealed publicly, that the actual spending impact is much smaller.

Malaysians generally always find a workaround to systemic government failings by creating a parallel private system. In doing so, it has perhaps been counterproductive in failing to hold the public system to account allowing public

services to continue to degrade over the last few decades.

The same can be said of the country's vast networks of NGOs, which are now a vital part of the economic system, as they so regularly step into the breach of services which should be government-funded.

Thus it is not surprising that the government's reaction was slow. The government's delay in unshackling the economy and the lack of a plan to deal with the rising costs and shortage in the food supply have caused potentially untold misery for Malaysians in general.

As prime ministers, both the present and his predecessor were unable to do what they did as a minister in the previous cabinets. The once appealing and powerful image of the PM7 as a leader who said he put his race first before the country, has fallen.

The country's ruling administration has ministers who have been around for the last 20 years. Months into the pandemic and the present economic malaise, none of them has shown signs of recognising the sufferings of the people, let alone taking responsibility for it.

This is actually nothing new or surprising as the present group of ministers were

also ministers in the cabinet when it was helmed by Najib Abdul Razak.

In that administration, a minister was quoted, famously, asking the rakyat to do their own fried rice instead of eating out to save costs while the prime minister asked the people to consume kangkung, which is one of the cheapest vegetables among other available varieties.

For the present food crisis, a leader of a party in the present administration went on record to say that the crisis was not the government's fault.

If one is to look at the series of events happening since Feb 2020 when a government that was unelected was installed to govern the country, the crisis announced its arrival in stages.

From the installation of an unelected government to the outbreak of Covid-19 to the closure of a large section of the economy, raging infections amongst the foreign workers that stalled production facilities catering to the export market, the closure of commercial establishments during lockdowns, and the consequent losses of jobs and incomes.

In 2020 alone, real GDP contracted by 5.6 percent as compared to 4.4 percent in 2019. Malaysia's poverty rate rose from 5.6 percent in 2019 to 8.4 percent in

2020. As of February 2022, the labour market had still not regained its pre-crisis position, with an unemployment rate of 4.1 percent vs 3.3 percent in 2019.

In addition, nominal wage growth in the private sector was only 0.4 percent following a 2.4 percent decline in 2020, and this is not enough to allow households to deal with this new inflationary shock.

The bright spot is that the bulk of Malaysia's total external debt is by corporations and banks while the national debt stood at RM1.33 trillion as of June 2021.

Everyone has an inkling that the country's economy is on the decline for the last two years. For sure, the government is aware of that too.

Even the PM7 publicly admitted that the country doesn't have much money left in April 2021. And all this time, it had no real concrete actionable plan and strategy.

### **Politics took centre stage**

The promise of a tiger economy and reaching developed nation status began 31 years ago when the 4th prime minister articulated a grand plan to raise the country to developed nation status by 2020. The vision he painted was one of a

united, liberal Malaysia, where every race enjoyed the spoils of the nation's collective success.

As quickly as it had begun, everything came crashing down.

First, the Asian financial crisis hit. The pace of industrialisation slowed down a lot after that. Yes, it was growing but it was nothing compared to the decade leading up to the financial crisis.

Then politics took centre stage and went the opposite in issues of race and religion. The framework never became part and parcel of the national ethos to achieve the 2020 vision.

Then the NEP policy got corrupted and abused. The country failed to bridge the gaps between the haves and the have-nots.

When Jan 1, 2020, rolled around, the world still considered us a developing economy. The only instances when true unity, ie talk of a Bangsa Malaysia was when we were glued to our TV sets, cheering on sporting heroes like Lee Chong Wei.

The government's social welfare as patronage politics was disastrous

misgovernance, a reflection of the leaders' overconfidence and disconnect with the public that once adored them.

The shrinking of the income tax caused a drastic cut in government revenue. It took hardly any time for the pandemic to accelerate the downturn.

Self-assured of its political might, the ruling administration appeared unperturbed by the fast-unfolding economic crisis.

The poorest are bearing the heaviest burden of this crisis which will likely deepen in the coming months. And this crisis not only hits the poor in the rural but also the urban poor.

It might come a time when the elites, who otherwise scorn protests as a nuisance to the public, will demand better leadership and solutions.

When immigration authorities see a sharp increase in applications for new passports, ie the rakyat from working families try going abroad for work, it will be a real challenge for the country.

It remains to be seen if the popular anger now transforms into a real political challenge. The fragmented response from the political opposition appears muted.

Two critical factors over the next few months will determine the country's economic revival. The government's ability to arrest the devastating impact of the food crisis and the opposition's chances at winning the people's confidence as a credible political alternative.

Even now, there is nothing to suggest that the government has a strategy going beyond the next few months. Its response to the enormous challenge so far is, at best, piecemeal.

The political costs of this crisis will affect just the parties in the present ruling coalition but the economic aftermath will be the country's to bear.

So what went wrong? And who's to blame?

Whose fault is it really? The leadership only.

Similarly, the situation in Sri Lanka was also due and attributed to the leadership.

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