

**Malaysia 'top-down' reforms set to disappoint**  
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ANALYSIS KUALA LUMPUR - Malaysia's plans to revitalise investment by backing national champions and ending race-based policies may sound ambitious, but the details are hazy and real economic reform will face formidable obstacles.

The government starts public consultations this month on a new round of reforms, but there is growing resistance from voters and disappointment from investors over measures taken so far.

A government think tank has identified a dozen growth industries such as oil and gas, biotechnology and Islamic finance to focus on in a drive to double Malaysia's income per capita and propel it into the ranks of "developed nations" by 2020.

Prime Minister Najib Abdul Razak's record on reform is patchy – he shied away from big subsidy cuts and reversed tack on race-based preferential equity ownership rules for the majority ethnic Malay population under pressure from activists.

"Earlier optimism that Najib will be able, and will be committed, to carrying out his plans for reforms has been replaced by resignation that Malaysia will not change course quite so quickly or easily," said Southeast Asia political risk analyst David Kiu.

Najib took office last year and promised investor forums that on reforms, he would "execute or be executed", after the National Front coalition that has now ruled this Southeast Asian country for 53 years stumbled to its worst ever election results in 2008.

In the past decade Malaysia has seen its dominant position as an investment destination in Southeast Asia crumble, its productivity gains lag and a worsening of its education rankings which mean it is less well equipped to meet its growth goals.

A survey last week by the World Economic Forum showed Malaysia slipped two places in its global competitiveness rankings to 26th spot out of 139 countries while neighbouring Indonesia surged 10 places to 44th spot. The quality of Malaysia's institutions, ranked 17th by the WEF five years ago, has plunged to 42nd place since then.

Under its "Economic Transformation Plan" to be unveiled this month, Malaysia's government wants to galvanise 2.2 trillion ringgit (\$706.7 billion) in investments over the 10 years to 2020 of which 92 percent will come from the private sector.

That would be a big leap from the 535 billion the private sector has invested over the past decade, and few analysts expect detailed plans to be unveiled on how to boost investment.

Although hot money has flowed into the Malaysian bond market this year, reversing outflows in 2008 and 2009 and pushing the ringgit currency to 13 year highs against the dollar, Malaysia has slid off the investment map for many.

Foreign ownership of the stock exchange stands at just 21.2 percent of market capitalisation, down from 26.2 percent in 2007.

Many Malaysian companies like leading bank CIMB and telco Axiata are being wowed by the

prospects of faster growth in countries like Indonesia and want to become major regional players, so they are exporting capital.

That means government-linked companies (GLCs) will lead the charge to invest more at home, said Wan Saiful Wan Jan of the Institute for Democracy and Economic Affairs think tank:

"They cannot talk about opening up our markets and at the same time give more for GLCs to do to meddle in our economy."

Although Najib has only been in power since April 2009, he may soon have to shift to policies that will shore up his political base. Elections are due by 2013 and are likely to be called earlier.

His coalition of 12 parties, constructed along racial lines to reflect the Malay, Chinese and Indian populations as well as the indigenous people on Borneo island, is still fraying.

Najib is under pressure from Malay activists in his own party who fear reforms will erode their privileges as well as from ethnic Chinese coalition leaders whose only hope to win back voters is to be more vocal in promoting their own community.

A Malay pressure group called Perkasa which claims 300,000 members recently lodged a police report against the leader of the coalition's ethnic Chinese party after he called for the removal of laws guaranteeing Malays and indigenous people 30 percent equity rights in public companies.

There has also been a steady drip of racial posturing in the media during the Muslim fasting month of Ramadan with an opposition ethnic Chinese politician being attacked for visiting a mosque and a Ramadan ad campaign being pulled for having Christmas overtones.

"The incitement of ultra-nationalist feelings is mainly conducted in the Malay media and hence is not so visible to foreign observers but it is a really worrying trend that is taking place under a so-called reformist government," said Lim Teck Ghee, director of the Centre for Policy Initiatives.

Najib has sought to sidestep some of the blockages to reform by outsourcing the process to advisory bodies, but when it comes to implementation, he will still have to rely on the 1.2 million strong mainly Malay civil service.

The civil service employs one in every 20 Malaysians and Wan Saiful notes many of them are drawn from the constituency that has most to lose from any meaningful reforms:

"They are a force of their own, and they are far too big for the government to ignore." — *Reuters/Bername*

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