

# PM pledges consolidation in second term

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Governing party expected to return Economic reforms to continue

By John Burton in Penang

Abdullah Badawi, the Malaysian prime minister, has vowed not to launch any significant economic initiatives during his second term as he intends to focus on consolidating reforms announced since he took office in 2003.

Mr Abdullah's National Front party, which has ruled Malaysia since independence in 1957, is expected to be returned to office in elections on Saturday, but with a reduced majority. A survey by the Merdeka Centre, an independent polling group, recently found that the economy was voters' biggest concern, particularly when it came to inflation.

In an interview with the Financial Times Mr Abdullah said: "There is no hurry to announce new [economic] programmes. There is

already enough to do. [A second term] will be a period of aggressive implementation of current policies."

Mr Abdullah acknowledged that inflation was his most immediate economic challenge but suggested he might keep most of the subsidies that the government pays to keep down the cost of fuel and food items.

Malaysia's inflation rate of 2 per cent compares favourably with neighbouring Singapore's 6.6 per cent. Rising prices, however, hit the poor hardest and inflation could reach almost 3 per cent this year, according to Citigroup.

Mr Abdullah described as "stupid" opposition proposals that revenues from state oil company Petronas be distributed to Malaysians to compensate for price rises, saying such a move would only increase inflation.

The government was better able to maintain the subsidies since the budget deficit was narrowing and state companies had become more efficient, thereby becoming "the new catalysts for economic growth", he said.

Mr Abdullah has sought to reduce the large government budget deficit, restructure state companies, promote the development of service industries and set up new economic zones.

A priority has been encouraging foreign investment in service industries as Malaysia seeks to reduce its dependence on manufacturing as production shifts to China and Vietnam.

Mr Abdullah said that predominantly Muslim Malaysia had already become the main regional Islamic banking hub, with large investments from the Middle East.

The creation of a new economic zone near Singapore is expected to attract foreign investors, including some based in the city-state, because of much lower land and operating costs, he said.

"[The Singaporeans] are worried [about the economic zone] and so they express some doubts about whether it can succeed because if we do well, they will have problems."

The zone is one of five "economic growth corridors" that Mr Abdullah hopes will be his biggest legacy, even though some will not be finished for another 30 years.

Mr Abdullah rejected criticism that the long-standing policy of preferential treatment of the ethnic Malay majority, who have lagged behind the richer Chinese minority, was discouraging foreign investment.



Abdullah: building a legacy

"The policy has created balanced economic development by closing the gap between rich and poor and reducing the disparity between urban and rural areas, which contributes to the stability that foreign investors want," the prime minister said.