



Malaysia in Its Best Shape?

The country's economy is supposedly in its best shape in years and in a position to withstand any external shocks. But is everybody better off or is this another media hype?

NEARLY A DECADE AFTER TUN DR MAHATHIR MOHAMAD DID WHAT WAS then considered unthinkable – imposing selective capital controls – to stifle attack on the ringgit, the Malaysian economy, according to a *New Straits Times* report, is in its best shape.

Citing analysts, the newspaper on Feb 6 said: 'A decade after the Asian financial crisis, the economy is in its best shape. Not only has Malaysia's economy come out of crisis mode, statistics show that it is strong enough to face future shocks.'

The paper mentioned neither Dr Mahathir's name nor his unorthodox action, of course. Bringing in him into the *NST*'s story is entirely my work. A dose of recent history hopefully brings about some good.

Umno and the Barisan Nasional have always spoken of the long-term nature of their plans and actions. Forward planning and long-term stability are the core elements of their sales pitch.

So it's good for us to remember those difficult days when Dr Mahathir was supported by stalwarts like Tun Daim Zainuddin, Datuk Seri Anwar Ibrahim and those technocrats and businessmen and women who were members of the National Economic Action Council and its various working groups.

What is not widely known is that Dr Mahathir and his team held over 120 consultations with industry groups and experts, including the International Monetary Fund (IMF) and the World Bank, before imposing the capital controls and launching the economic recovery package.

If Malaysia is now in better shape to withstand any mega surge in liquidity that could potentially destabilise the country, as OSK Research economist Sia Ket Ee had said, part of the credit must go to the men and women who put together the recovery plan back in 1997/98.

But even the *NST* was non-committal about the true shape of the economy when its headline asked: 'State of the economy: How healthy is it really?'

Not all that rosy

HOW healthy is the economy then?

According to the statistics laid out by the *NST*, the per capita income rose from RM12,079 in 1998 to RM18,039 in 2005.

Foreign direct investments increased from RM13.063 billion to RM17.88 billion, gross domestic product from RM182.2 billion to an estimated RM277.2 billion (2006), international reserves from US\$30.85 billion in 1999 to US\$70.48 billion (2005) and the Kuala Lumpur Composite Index (KLCI) from 262.7 points in the dark days

of 1998 to 1,225.73 points on Feb 5.

On Feb 8, Prime Minister Datuk Seri Abdullah Ahmad Badawi announced that Malaysia's total trade for 2006 had reached its highest level in the country's history after breaching the one-trillion-ringgit (US\$306 billion) mark.

He said trade last year surged by a record 10.5% to RM1.069 trillion from 2005.

'This is an inspiring achievement and it reflects the increase of the country's trade flow, especially in the value of exports,' Abdullah said in a statement issued by his office.

Total exports for 2006 were RM588.949 billion and imports RM480.493 billion, said Abdullah, who is also Finance Minister. He also heads the powerful Internal Security Ministry.

He said Malaysia's 10.5% increase in trade for 2006 had exceeded the global average estimated by the World Trade Organisation. Malaysia also recorded its highest annual trade surplus of RM108.456 billion for the year.

'Although the country has gone through various economic challenges, especially the 1997 economic crisis, as well as the global recession in 2001 and 2002, Malaysia has weathered it well and continues to chalk up increased trade,' he said.

It's nice to hear the Prime Minister acknowledging, albeit indirectly, that his predecessor had successfully extricated the economy from the throes of the 1997/98 crisis and the downturn of 2001/02, and return it to the path of sustained growth.

Statistically, the economy is doing well, leading the Second Finance Minister, Tan Sri Nor Mohamed Yacop, on Feb. 8 to declare: 'We are very confident the good times are here.'

He expected the economic growth to have met or exceeded the 2006 target of 5.8% and was confident the stock market rally could be sustained.

But the reality may be somewhat different. It is more favourable than before, but not as rosy as the statistics show.

That's because these are crude figures. They do not take into account things like inflation, currency fluctuations and the distribution of income.

Thus, while the *NST*'s report celebrated these positive developments, the widely circulated *China Press* reported that sundry shop operators were experiencing a sizeable drop in business for the Chinese New Year season.

Federation of Sundry Goods Merchants Associations of Malaysia president Lean Hing Chuan was quoted as saying that sales of

Chinese New Year food items were slower compared to previous years.

Lean said this was due to several reasons, including the floods in the southern states and the price increases.

'The floods have affected the festive mood of the people. Besides that, prices of festival food items have increased between 10% and 30%. Consumers are more prudent when selecting such items nowadays,' he said.

Although official statistics continue to claim low inflation, the reality is very much different thanks to the government-mandated price increases for petrol, diesel, cooking gas, electricity, water and highway tolls.

Disparity in performances

EVEN among analysts, the views differ quite considerably. They speak of the disparity between macro and micro performances of the economy.

The Singapore-based economist, Sanjay Mathur of UBS Warburg, was quoted by the *NST* as saying that while the macroeconomic stability was at a higher level, there had been a loss in growth.

Annual GDP growth, he noted, hovered in the 5% to 6% range compared to the pre-crisis average of 7.5%.

'Private investment is seriously languishing and the country lacks skills,' he said.

The Singapore *Business Times* in a Jan 26 report said: 'Compared to foreign direct investment inflows of its Asian counterparts, Malaysia fell from being the fourth-ranking Asian country in 1990 to 62nd in 2005.'

Singapore-based economist Joseph Tan of Standard Chartered said the serious shortage of talents needs to be addressed. 'Competition today is on a different scale. The war is about talent, not capital.' Malaysia could produce top graduates, he said, but the government needs to consider ways to retain its talent.

To rectify the human capital development flaws, the government is offering initiatives under the Ninth Malaysia Plan.

Tan also felt that the reform pace was too slow compared with that of regional competitors such as Singapore and Hong Kong.

Table A
FEDERAL GOVERNMENT DEVELOPMENT ALLOCATION AND EXPENDITURE BY MINISTRY, 2001-2010
(RM million)

Ministry	FMP		GMP				
	Expenditure	%	Development Allocation	%	Private Finance Initiatives	TOTAL	%
Prime Minister's Department	7,287	4.3	26,495	13.2	3,193	29,688	13.5
Public Service Department	260	0.2	263	0.1	41	304	0.1
Ministry of Finance	13,541	8.0	9,004	4.5	885	9,889	4.5
Ministry of Foreign Affairs	577	0.3	753	0.4	0	753	0.3
Ministry of Plantation Industries and Commodities	442	0.3	791	0.4	30	821	0.4
Ministry of Agriculture and Agro-Based Industry	3,346	2.0	6,969	3.5	357	7,316	3.3
Ministry of Rural and Regional Development	7,515	4.4	10,914	5.5	55	10,969	5.0
Ministry of Natural Resources and Environment	3,579	2.1	6,851	3.4	121	6,972	3.2
Ministry of International Trade and Industry	328	0.2	2,326	1.2	0	2,326	1.1
Ministry of Domestic Trade and Consumer Affairs	51	0.0	65	0.0	0	65	0.0
Ministry of Entrepreneur and Cooperative Development	3,769	2.2	5,772	2.9	142	5,914	2.7
Ministry of Works	19,333	11.4	18,623	9.3	350	18,973	8.6
Ministry of Transport	9,664	5.7	8,222	4.1	1,310	9,532	4.3
Ministry of Energy, Water and Communications	6,085	3.6	12,123	6.1	0	12,123	5.5
Ministry of Science, Technology and Innovations	4,911	2.9	7,173	3.6	350	7,523	3.4
Ministry of Tourism	482	0.3	1,367	0.7	110	1,477	0.7
Ministry of Federal Territories	5,980	3.5	3,447	1.7	0	3,447	1.6
Ministry of Education	24,172	14.2	16,963	8.5	6,235	23,198	10.5
Ministry of Health	9,334	5.5	10,276	5.1	728	11,004	5.0
Ministry of Housing and Local Government	7,513	4.4	8,974	4.5	0	8,974	4.1
Ministry of Culture, Arts and Heritage	404	0.2	598	0.3	53	651	0.3
Ministry of Youths and Sports	2,203	1.3	2,242	1.1	0	2,242	1.0
Ministry of Human Resource	2,146	1.3	2,126	1.1	484	2,610	1.2
Ministry of Information	350	0.2	450	0.2	253	703	0.3
Ministry of Women, Family and Community Development	258	0.2	552	0.3	0	552	0.3
Ministry of Higher Education	13,554	8.0	16,069	8.0	1,548	17,617	8.0
Ministry of Defence	18,643	11.0	14,546	7.3	1,206	15,751	7.2
Ministry of Home Affairs	1,313	0.8	1,033	0.5	520	1,553	0.7
Ministry of Internal Security	2,964	1.7	5,023	2.5	2,051	7,074	3.2
Total	170,000	100.0	200,000	100.0	20,000	220,000	100.0

Source: Ninth Malaysia Plan

'Benchmarked against itself, Malaysia has made lots of improvement. But compared with other countries, especially in the area of foreign investment, it needs to act more speedily,' said Tan.

Adam Le Mesurier, the Economist for Asia Pacific research of Goldman Sachs, who assessed the Malaysian economy in early February, said foreign investors' interest had been rekindled by an improvement in the micro picture although the macro 'overlay' was less compelling.

He attributed the former to such developments as corporate restructuring, government-linked companies reform optimism and improvement in their earning momentum, and the latter to the pre-election fiscal pump priming cycle and the 'cheap' currency.

Le Mesurier said structurally, investors' opinion is still quite split between the notion that Malaysia's political economy will never change and one that says Malaysia is changing, but at a pace determined by the complexities of its political economy.

And there's nowhere that the role of the so-called

political economy is more apparent than in the way the Prime Minister is consolidating his economic and fiscal control.

Why so much money for PM?

THE Prime Minister has given the newly established Special Task Force to Facilitate Business (Pemudah) six months to show results and 'make a difference'.

Abdullah said the task force and the Public Service Delivery Coordination Committee (3P), which was set up to complement the work of Pemudah in the public sector, should be making visible progress in the next six months.

The Prime Minister's Office, in a statement on Feb 7, said Pemudah was given the mandate to find ways to make Malaysia more business friendly and its first task was to cut local government red tape.

The Prime Minister stressed that the body would not be just a platform for dialogue between the private and public sectors to formulate ideas on improving the country's business environment.

Whereas the formation of action committees and multi-party dialogues is good, they do not guarantee smooth implementation

of policies and programmes if the civil servants and their political masters are not seeing eye-to-eye or if there is interference from outside the government.

Additionally, do we need more committees and consultative platforms when there already exists such bodies as the Malaysian Business Council (MBC), the Malaysian Industry-Government Group for High Technology (Might) and the National Information Technology Council (NITC)?

Little is heard about the activities of these government-private sector consultative bodies in recent years as opposed to during the Mahathir era.

What is interesting but hardly reported is the massive political, administrative and financial power that has been concentrated in the office of the Prime Minister since Abdullah took charge.

The most glaring was the allocation of development funds under the Ninth Malaysia Plan. The Prime Minister's Department has emerged as the largest recipient with a whopping RM26.5 billion or 13.2% of the total allocation of RM200 billion.

The Prime Minister's coffer is even bigger - RM29.7 billion - if funds under the Private Financing Initiatives are taken into consideration. By way of comparison, only RM7.3 billion was allocated to the Prime Minister's Department under the Mahathir era's Eighth Malaysia Plan or 4.35% of the grand total of RM170 billion.

And when we consider that Abdullah is also the boss of the Finance Ministry and the Ministry of Internal Security, the grand total of development allocation under his purview is RM40 billion.

Consequently, allocations given to key ministries like Education, Works, Transport and Defence fell both in absolute and percentage terms (*see Table A*) although funds for the rural sector increased.

Thus, Abdullah becomes the first Prime Minister in Malaysian history to control the biggest allocation under a five-year development plan. That translates into the most unassailable political, administrative and financial power that a Prime Minister could hope for. **mb**

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