Huge O&G growth a poser for Malaysia's future
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By Lee Wei Lian

ANALYSIS, Feb 22 — When last year's investment figures were released yesterday, one statistic stood out — the stunning 132.7 per cent growth in the mining sector — and painted a picture of a two-speed economy where oil-and-gas was booming while other sectors grew slowly or even registered declining investment.

This comes as the World Bank warned last November that Malaysia is too dependent on fossil fuel revenues, with its non-oil primary deficit having doubled in the last five years to almost 20 per cent of GDP.

The other concern is that oil and gas would continue to compete for talent and funds that could be used to broaden the country's economic and wealth base, especially in home-grown science and high technology, areas in which Malaysia is an insignificant player.

The windfall from petroleum has also bolstered government coffers to the point that the World Bank noted in 2009 that non-oil revenues are insufficient to finance federal operational expenditure.

The country's reliance on government spending funded by oil revenues also threatens to dull the urgency to develop the country's competitiveness through gains in productivity and innovation.

Investment in the mining and quarrying sector — which is dominated by the oil-and-gas industry — more than doubled from RM3.14 billion in 2010 to RM7.3 billion in 2011.

At this rate, investments in oil-and-gas are on track to overtake services and even manufacturing, the nation's largest contributor to exports.

Investment in services shrank from RM10 billion in 2010 to RM9 billion in 2011, while manufacturing investment barely registered any growth, rising only 2.5 per cent from RM16.11 billion to RM16.51 billion.

States like Sarawak and Sabah already appear precariously dependent on oil and gas — national oil company Petronas alone accounted for nearly half of Sarawak's total investment last year.

Figures provided by the World Bank in a 2009 report also show that oil-and-gas revenue increased from 5.1 per cent of GDP in 2004 to 8.6 per cent in 2009.

Another issue stemming from the lure of petro-dollars is that companies wanting to cash in have initiated a flurry of ambitious projects, only to have them run into major difficulties.

The multi-billion Asia Petroleum Hub in Johor, once billed as one of the world's largest integrated terminal, was placed under receivership by its financier last year.

A US$7 billion (RM21 billion) trans-peninsula pipeline initiated by Trans-Peninsula Petroleum

Sdn Bhd that runs from Kedah to Kelantan, launched in 2007, has apparently either been delayed or cancelled.

While oil and gas is a valuable contributor to a diversified economic base, the country must be mindful not to allow it to distort the economy.

The planet is littered with examples of oil-rich countries that failed to graduate to developed country status, such as Nigeria and Venezuela.

Critics of Australia’s mining boom maintain that its reliance on minerals has led to the country being less enterprising than it could otherwise have been.

Even within Malaysia, the states with the most oil-and-gas resources — Sabah, Terengganu and Sarawak — remain largely poorer and less developed than the resource-lacking states like Penang and Selangor.

The country, already admittedly stuck in the middle-income trap, must also ensure that it can escape the grasp of a more subtle but no less insidious one — that of the resource trap.

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