

After elections, Najib has serious economic concerns on his plate
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KUALA LUMPUR, May 21 — Datuk Seri Najib Razak's newly re-elected Barisan Nasional (BN) government faces what the Financial Times today called the serious economic problem of weakening exports.

Amid fears of a widening Asian slowdown, the business daily explained that the decline could hamper Malaysia's ambition of graduating into the ranks of high-income countries and escaping the so-called "middle-income trap".

"The general picture (emerging from economic data) is that Asia is slowing and it's export-led," Daniel Martin, Asia economist at Capital Economics in Singapore, told the Financial Times.

Last week, Malaysia reported a gross domestic product (GDP) growth of 4.1 per cent in the first quarter compared with the same period a year ago. It was the slowest pace of growth since the third quarter of 2009, and lower than the 5.5 per cent rate expected by economists.

Meanwhile, exports have dropped by 0.9 per cent in the 12-month period leading to March this year, with exports of machinery and transport equipment dropping by 2.1 per cent in the same period.

The share of machineries and transport equipment in total exports has dropped significantly from a peak of 63 per cent early this decade to 38 per cent in March.

This has mostly been a result of the 2008 global crisis, where Malaysia's total exports to the United States dropped by more than half from its peak in August 2006 to the lowest in February 2009. Machineries made up almost 60 per cent of Malaysia's exports to the US.

This fall in machineries exports might leave Malaysia stuck in the middle-income trap, as the Asia Development Bank warned of failure to make the leap from exploiting cheap labour and natural resources to producing and exporting more technologically advanced products.

Malaysia also has not been able to offset its manufacturing export weakness with a strong services sector compared to Singapore and Hong Kong which have reached the high-income nation rank through a boost in the services sector.

"While other developing countries are reaping the benefits of globalisation of services, Malaysia has yet to take advantage of this phenomenon," said a paper by the World Bank last month called "How to Avoid Middle-Income Traps? Evidence from Malaysia".

Economists are also warning that domestic demand, the so-called backbone of regional economies since 2008, is also showing signs of fatigue.

This would cause concern for Malaysia, which much of its growth was buoyed by strong domestic demand, which rose 8.2 per cent year-on-year compared to 7.8 per cent in the last quarter.

Economic concerns are likely to push Najib's government to put necessary economic reforms like the long-overdue Goods and Services Tax (GST) on the back burner because of its unpopularity among voters.

According to Bank Negara Malaysia (BNM) governor Tan Sri Dr Zeti Akhtar Aziz, Malaysia could still cut subsidies gradually, but warned the government of sticking to the budget in keeping the promises made prior to Election 2013.

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