

Malaysia faces headwinds in final lap to developed nation status
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Prime Minister Datuk Seri Najib Razak will outline today a five-year development plan leading up to 2020, the date the country has set for achieving developed economy status, but that goal may prove elusive as political pressures crowd out reform.

Najib's government faces its harshest test since coming to power in 2009, as Malaysia braces for a downgrade of its credit rating by Fitch and a once-stable political environment is shaken by allegations of state corruption and mismanagement.

When the prime minister reveals his plans to complete the final step towards Malaysia's vision of being a high-income nation by the end of the decade, he may have to forgo some long-term growth targets to tackle pressing short-term concerns.

"There would be more popular measures introduced in this plan than the long-term transformative measures that would get us to the 2020 target," said Oh Ei Sun, senior fellow at S. Rajaratnam School of International Studies.

"This is because the immediate political survival is more important for Najib, and for that he needs to improve his public image. Besides, Najib would have retired by 2020 so his bigger concern is the current political issues."

Public discontent spilled onto the streets this month with more than 10,000 people demonstrating against rising costs and a new goods and services tax (GST), the largest protests seen by the country in years.

Attacks by influential former prime minister Tun Dr Mahathir Mohamad over alleged corruption in debt-ridden state investment fund 1Malaysia Development Berhad (1MDB), and calls for him to step down, have also weakened Najib's position.

Analysts expect him to try to turn around some of that sentiment by announcing more short-term measures to improve living standards.

In the last five-year plan in 2010, Najib set out plans to cut subsidies and accelerate investment into the country.

Since then, Malaysia has abolished fuel subsidies that had weighed on the government's budget deficit and also introduced the GST that should help offset some of the revenue lost from the fall in global prices for its oil and natural gas exports.

But Najib has also introduced measures to further boost the economic participation of the ethnic Malay majority, entrenching race-based policies seen as shoring up support among the politically-dominant Malays.

More incentives are expected in this five-year plan for the Bumiputeras, who are the core constituency of Najib's Umno that has been the dominant force in the country's

ruling coalitions since independence in 1957.

Ethnic Malays have benefited from wide-ranging affirmative action privileges since the early 1970s, a policy that critics say has stunted the country's competitiveness and led to a huge "brain drain" of ethnic Chinese emigrants.

Najib said last week that priorities of the people, especially with regard to the cost of living, security, transport and rural infrastructure, would be the focus of the 11th Malaysia Plan.

There would be a special focus on education, especially on technical and vocational training, he added.

"In addition to doing the more populist policies, I think he will ramp up the Bumiputera policies," said Professor James Chin, director at the Asia Institute Tasmania.

Achieving the 2020 target would make Malaysia the second high-income nation in Southeast Asia after neighbouring Singapore.

Malaysia's economy grew a stronger-than-expected 6 percent in 2014, and a respectable 5.6% in the first quarter, but economists expect the net energy exporter to feel the full impact of weaker global oil and gas prices in the coming months.

Ratings agency Fitch said in January it would review Malaysia's rating in the first half and may downgrade it, citing the revision of its fiscal deficit target to 3.2% of GDP as evidence that "dependence on commodities remains a key credit weakness for Malaysia".

Delivering major infrastructure projects, diversifying industry and increasing investment are seen as priorities for the next plan.

But while the finish line is in sight, the final lap is not going to be easy, Weiwen Ng, economist for Asean and Pacific at ANZ Research said in a note.

"Malaysia might well be taking the staircase, rather than the elevator as it nears the top," said Weiwen.

"The risk is that budget allocation for development expenditure (and hence infrastructure) might be slashed, especially if the government were to come in to bail out 1MDB."

Investment so far this year has been subdued, with issuance of public debt securities and business loans below average.

Income (GNI) per capita has gradually increased, rising 2% on average in the previous three years to US\$10,246 (RM37,037) in 2014, said Diana Del Rosario, an economist at Deutsche Bank in Singapore.

"But at least a 6% annual rate is still needed to meet the US\$15,000 mark by 2020," she said. – Reuters, May 20, 2015.

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