

Najib relies on populist playbook in attempt to offset scandals

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Embattled Malaysian Prime Minister Datuk Seri Najib Razak delved into the populist playbook to propose a budget sprinkled with handouts and subsidies, drawing criticism from the opposition who said he had missed an opportunity for broader economic reform.

Faced with a funding scandal in its fourth month that has sapped investor confidence as a former prime minister – the country's longest serving leader Tun Dr Mahathir Mohamad – calls for Najib to resign and opposition lawmakers press for a no-confidence vote against him in Parliament, Najib opted for a budget that is likely to resonate with his main supporters, who are poorer, rural-based Malays.

The latest plan contrasts with Najib's prior efforts to make bigger dents in the budget deficit. Businesses face rising costs as he announced a higher minimum wage from July, while the top 1% of tax-payers will pay higher levies on income.

The budget underscores the challenges that Najib is juggling as he tackles his biggest crisis since coming to power in 2009, hit by the multi-million-dollar imbroglio and alleged financial irregularities at a state investment company whose advisory board he chairs.

Adding to bad news for the export-dependent nation is a world economy forecast to grow at the weakest pace since 2009.

'Hardly help'

"Instead of opting for substantive reforms to boost Malaysia's competitiveness, the prime minister focused on populist policies to gain the public's support," Trinh Nguyen, an economist at Natixis SA in Hong Kong, wrote in a note.

"The budget will hardly help the economy gain the competitiveness it needs to get out of its current malaise."

Friday's budget included cash handouts for 7.4 million households and individuals, higher pay and bonuses for 1.6 million civil servants, and a one-off payment to 700,000 pensioners.

There were bigger subsidies for rubber planters and rice farmers, funds to improve rural roads, electricity and water supplies, and a focus on states like Sabah and Sarawak, the latter of which will hold a state vote next year.

"He is targeting people who he feels he needs support from," said Terence Gomez, a professor at Universiti Malaya.

"These would be the civil service, the rural poor and Sabah and Sarawak. He also has

an eye to the middle class. He is trying to win them over.”

Umno chiefs

Najib has the backing of many division chiefs within his ruling Umno, which has been in power since independence in 1957, though there have been pressure points – he fired his deputy in July and Dr Mahathir has called for him to step down.

The key to him keeping power is the support of ethnic Malay voters, who receive preferential access in some areas of education, property, business and government contracts.

Najib’s coalition won the 2013 general election although it lost the popular vote for the first time, and any sense that his broader appeal is waning could raise the risk that Umno chiefs start to question his leadership before the next ballot which is due by 2018.

In the 90-minute budget presentation, Najib avoided any mention of debt-ridden 1Malaysia Development Berhad (1MDB) or the millions of dollars that ended up in his private accounts before the 2013 general election.

He has acknowledged the presence of the money but said it was a 'donation' from the Middle East rather than public funds, an initial conclusion also reached by the Malaysian Anti-Corruption Commission (MACC). The accounts were closed in 2013.

Opposition placards

Opposition lawmakers didn’t let him forget as they held up placards asking about the RM2.6 billion 'donation' the moment he finished speaking. The populist budget is a diversionary tactic, they said.

"He’s running away," opposition leader and PKR president Datuk Seri Dr Wan Azizah Wan Ismail told reporters. "Regarding 1MDB, not even a word, he doesn’t even address our concerns."

Officials dismissed criticisms that the budget adopted a Robin Hood approach of taking from the rich to give to the masses, and that Najib is deflecting attention from the scandals.

The finance ministry’s top bureaucrat Treasury secretary-general Tan Sri Mohd Irwan Serigar Abdullah said the tax increases will generate about RM400 million in revenue and the country isn’t taking "billions" more from its top earners.

Austerity measures

While Najib unveiled a list of benefits for the people, a study of federal expenditure documents for 2016 showed austerity measures that may increase the burden for some groups.

Money has no longer been allocated for subsidies on electricity bills compared with an estimated 150 million ringgit in 2015, while a RM950 million cooking oil price stabilization program received no funding. Public universities are getting less funds.

Personal tax rates risk sending the message to potential investors and companies that they may be next, said Veerinderjeet Singh, chairman of the Malaysian unit of Taxand, an organisation of multinational tax advisers.

Chua Hak Bin of Bank of America Merrill Lynch called it a "negative incentive" for high-earning foreign talent to come to Malaysia.

'Missed opportunity'

While the budget allocates funding to support export growth, Nguyen of Natixis said the measures are "more palliative than significant," calling it a "missed opportunity."

There has been a lack of strategy to develop the industrial sector, Nguyen said. The Federation of Malaysian Manufacturers (FMM) expressed concern about rising wage costs.

The budget is designed as if an election is coming soon, said Wellian Wiranto, an economist at Oversea-Chinese Banking Corp in Singapore.

"It is telling that, at the end of the day, fiscal rectitude is a lot less acutely crucial to the government" than the desire to make sure Malaysians still feel taken care of, he said.

"Najib is feeling the heat," said Bridget Welsh, a senior research associate at the National Taiwan University's Center for East Asia Democratic Studies.

"There are no real long-term drivers in terms of promoting economic growth and it doesn't deal with the kind of structural problems that the country is facing. This budget is a sign of weakness, it's not a sign of leadership." – Bloomberg, October 26, 2015.

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