

Daim speaks his mind... on the economy

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FORMER adviser to the Pakatan Harapan government Daim Zainuddin talks about the Malaysian economy and how it was, is and should be managed.

Why were there economic policy failures of PH considering there was little put forward as policy and implementation and the consequential ineffectiveness on economic growth?

In many ways, the PH government started off well and did a lot of things right. The biggest achievement, in my view, was in reducing corruption. We were no longer known as a kleptocratic nation. It had also reduced the cost of some big-ticket projects that were signed off by the BN government. Those election promises such as removing the GST, re-instate fuel subsidies, and others were either implemented or was in the process of being implemented.

It also started efforts to restructure GLCs and GLICs by ensuring only capable technocrats were appointed, and many of those appointed received lower remunerations compared to those appointed during BN era. Certain part of the institutional reforms have been implemented, and some are in the pipeline. However, those reforms were unable to be fulfilled due to change of government halfway through PH's mandate.

Unfortunately, many of other initiatives including those that began well were compromised somewhere along the way. In many ways, PH was probably its own worst enemy. While there is no single reason why some of these policy changes slowed down drastically, I would say the draw of party interests far exceeded the government and rakyat interests especially when they just came into government and were still strongly tied to party politics. Certain members of the PH component parties seemed more intent

on fulfilling their individual and party agendas instead of coming together for a national agenda.

So, for instance in the case of political appointments in government linked or government owned entities, the call to appoint only professionals was partially compromised as some parties caved in to pressure from their members.

They had been too long in the opposition and found it tough to adjust to running a government. But to be fair, they were only one third into their mandate and were already learning the ropes. They were ready to move to the next phase with better coordination and implementation and then the government was taken from them.

The CEP worked hard and long to recommend improvements to Malaysia. Why weren't many of its recommendations adopted and why was it seemingly fruitless?

The main component of CEP recommendations, which covers a wide range of issues, were monitored by the PMO. I do not know what has happened to it now. The Independent Reform Committee's recommendations are monitored by the GIACC. There are around 227 recommendations, of which 158 are works in progress, and about 20% of the recommendations have been addressed.

In the nearly two years PH governed, what has been the biggest regrets when it comes to policy decisions and implementation? Was the manifesto a millstone for PH?

As you know, I retired in 2001. I participated in the election to get rid of a kleptocracy government. I was not part of the political and administrative set up so I did not have a role in the implementation of policy decisions. Post-election my role, as head of the CEP, was to lead the team in identifying issues that needed immediate attention and making recommendations on how to solve them.

Somewhere along the way, the big picture was lost in the many nitty gritty issues that were brought up and that both the government and opposition became obsessed with. The manifesto was one of them.

Instead of looking at the spirit of the manifesto, the government became obsessed with the details of the manifesto. The government fell into the trap of the opposition who started nit picking on the manifesto. Yes, promises must be kept but when we found out about the financial position the government was left in after GE14, it was impossible to fulfil them immediately. But the government should have told the rakyat why it couldn't fulfil them. But at that point in time, the priority was to attend to the messy financial and economic problems left behind by the BN government.

For instance, the cancellation of the ECRL was part of the manifesto. But when weighing the available options, it became obvious that we had to be realistic and accept that the continuation of the ECRL at a lower cost was a more viable option rather than outright cancellation.

In missing the woods for the trees, the PH government hence kept on bumping against trees and bushes, often the result of lack of trust among component parties and the constant baiting by the opposition.

Other manifesto initiatives could have and should have been carried out not to the letter but in the spirit in which the manifesto was intended but infighting and personal and party agenda also did not help. Hence the lack of political will and grit to do so.

For instance, in the case of addressing the number of illegals in the country and reducing the number of foreign workers. After meeting many parties at their requests, I decided to write to the then PM and made several proposals to address this issue. These proposals would not only have seen a proper exercise to legalise and repatriate illegals, but would have also led to a more sustainable foreign worker policy. Instead, they were hijacked by the vested interests. As a result, the proposals were ignored and another manifesto promise was left unfulfilled.

We see the repercussions of the failure to address this issue manifested now during this Covid-19 pandemic. In addition to inability of contact tracing and clear knowledge of their size and whereabouts, the “sudden” arrests of illegals and their subsequent positive tests has not only led to increased xenophobia in the country but also in the increased reluctance of any illegal to come forward for voluntary repatriation. So much so, we are now facing a situation where locals think Covid19 is rampant only among foreigners, and this is creating distrust, abuse and fear of all foreign workers. Because of failure to address this issue many business activities such as construction, cannot resume because they are either hampered by their illegal workers going underground or because there is too much fear of transmission.

The biggest failure to me was how the government communications team failed badly to explain to the rakyat the actual situation and build up on the goodwill that brought it to power. It squandered the trust given to it. Instead of setting the narrative, the government was forever reacting to events and agendas it could not control nor had any control over. The breakdown in communication and the communication gap between the government and rakyat was indeed a lost opportunity.

There was also so much good going on but the noise from both the then opposition and the unhappy members of certain parties let loose and given free rein by their respective leadership, gave the impression that this was a disunited government, a clueless government or a government beset by infighting.

If they have had a better communications team who could explain the policies and the programmes undertaken, the people would have at least understood the difference between the empty noise outside and the hard work that was going on inside.

You were the finance minister during the 1984/85 recession when unemployment was highest at 9%. What is your assessment if the current situation? Is it worse than the 1985 scenario?

Yes, it is. 1985 doesn't even begin to compare with what is happening now. The current crisis is even worse than what we have ever experienced, worse than the 2008 global financial crisis, the 1998 Asian financial crisis and the 1930s Great Depression. It is also magnified by the US-China trade tension. At the moment I don't see an end in sight. That essentially is what we are facing now. Am I overstating it? I do not think so. BoE says this is the worst crisis in the last 300 years. The impact is unimaginable.

America, being the world's largest economy, is not doing well. Recent data shows that 41 million workers, or about 1 in 4 American workers have applied for unemployment benefits since the start of the lockdown. This is without precedent in American history, worse than the Great Depression in the 1930s. China, another big economy, is not expected to do well this year, probably in recession. This contrasts sharply with the GFC in 2008, when China grew by nearly 10% despite the crisis. Last week the CPPCC (Chinese People's Political Consultative Conference) decided to drop a growth target altogether this year.

I read the recent statement by the minister of finance that says 70% of workers are back at work, and economy will rebound. His statement has been refuted by MTUC, who said that such a claim does not reflect the bleak reality on the ground. It is very premature to claim that we will get out of the woods soon. The contraction of the economy will push back our progress by at least couple of years. We must remember that while the GDP recovered in 1999 after the contraction in 1998, it was not until 2002 that the economy went back to the same level prior to the crisis.

We can only pray that the MoF is right in his predictions and forecast as that would indeed be good news for the country.

We have been having a problem with the housing sector since 2016. How do we overcome the oversupply? Should Bandar Malaysia be stopped?

Two words: Stop building. Even when it was first approved, I spoke out against the revival of the Bandar Malaysia project for the simple reason that it would worsen an already severe supply glut in the housing and

property market.

Given what is happening now, the possibility of bank foreclosures on properties is very high as people lose their jobs and are unable to service their loans. Banks will be holding onto properties that nobody either wants to buy or can afford to buy.

Time and again, both Khazanah and Bank Negara research have stated clearly that the country's oversupply of properties is a pricing issue and not a credit issue. The houses that are being offered are over-priced – it is as simple as that. Developers have been getting away with using high land costs and increasing materials cost etc as reasons to hike up their prices and the government – from BN to PH – have given in to developers.

Stopping Bandar Malaysia will not magically address the housing oversupply or even the overpricing of houses. Only if and when the government breaks this cosy relationship with developers can real changes happen in the property market.

The construction sector plays a key role in the economy of the country and in my view the government must plan properly so that same problem will not reoccur every few years. One of the options that the CEP considered for that land was to turn it into a people's park, and put that land in a public trust so that it will always remain a green park for the people and out of the greedy hands of developers, both local and foreign.

Govt revenue will be an area of focus going forward considering the slump in the economy. What would be your recommendations to raise revenue and should the GST be brought back?

Governments worldwide have rolled out trillions of fiscal spending packages, and that includes Malaysia with its Prihatin package. But that package alone will not be enough to enable the country to escape a recession this year. That a recession will occur is a certainty. The issue is, how long will it last, what will be its impact and how long the duration of recovery?

As far as raising revenue is concerned, the government's options are pretty limited. With 23 consecutive years of fiscal deficit since 1997/98, this means not much of federal savings have been accumulated. Perhaps some of the more immediate measures that the government can undertake would be to reprioritise expenditure – which areas are paramount at the moment? Can some of the budget be used for more urgent matters? They could also consider raising the administrative limit from the current 55% of GDP. Relook at the budget and use for more urgent matters. The spending should be focused on helping the rakyat.

I have been informed that MOF is considering bearing the cost of the waiver of the compounded interest on hire purchase, and not banks. If true it means the rakyat will bail out the banks with a couple of billions of ringgit. That money is better spent on the poor, the micro enterprises, and those that lost their jobs, than to be given to banks.

There is also the option of asset disposal through privatisation, or listing of GLC assets. But timing here is crucial – are the conditions right to ensure maximum pricing? The government also lost an opportunity to raise some funds by auctioning the 700MHz 5G spectrum licences; instead it was first announced that the government gave it away for free to telco companies. Now that the announcement has been retracted it is good, given the present economic conditions, for the government to reconsider.

The government should revamp our tax policy. The problem with the goods and services tax was that it was introduced at a high rate, and the rakyat didn't see the benefit. I had advocated GST a long time ago, but the rate that was introduced was too high and the monies collected were not spent on the rakyat and not refunded to the companies and cost of living went up. We need to revamp our tax policy so that it is fair, efficient, and progressive.

The government can also turn to the domestic bond market because appetite is still strong for Malaysian bonds and the issue of foreign

exchange does not come into play.

And lastly, there is the option of borrowing from BNM, which is allowed under Section 71 of the Central Bank Act.

Of course, any one of the above measures will have a counter reaction. Hence, the government must also be able to handle these counter reactions to ensure things do not spiral out of control.

Have banks played a role in giving a moratorium to lenders? How will banks be affected after the six months and is there a need to further remedy the banking system?

Several things to take note in terms of the country's financial system prior to Covid-19. Compared to 1997-98, the financial system is definitely stronger and well capitalised. Our capital market is deep and diversified enough to absorb capital flow volatility.

In a way, having gone through the 1997-98 crisis turned out to be a learning experience for Malaysia because these past experiences and lessons have helped cushion the Covid-19 impact on our banking system.

The biggest banks in the country – Maybank and CIMB – are GLCs. Other GLIC Banks are RHB, Affin, MBSB and DFI such as Bank Pembangunan, Exim and SME. If these banks' outlook over the next six months is going to be affected then maybe the time is ripe for these banks and in fact, for all GLCs to relook at the salaries of their top management. As yet, we have not heard of how GLCs are assisting in economic recovery. TNB and TM have announced some initiatives under the Prihatin package, but these are temporary. GLCs, and this includes the banks, should be looking at how they can reduce their operational costs at this time instead of just accepting that profits will be lower or even non-existent.

As far as I have read, many private companies have been forced to implement pay cuts from the highest management to administrative staff

just to stay afloat. So far, except for Malaysian Airlines, I have not read of any GLC talking about pay cuts for its top management. Some have mentioned cutting benefits for board members, but how much does this amount to? There was a recent letter in The Malaysian Insight about the ridiculously high salaries of GLC CEOs and board members, with some earning more than half a million per month! This is madness.

At a time when people – ordinary workers – are struggling to keep their heads above water, shouldn't the GLCs also be doing their part? More so now when so many of them are being headed by politicians. So in addition to their MPs salaries, their private business salaries, this group of MPs are also now earning huge fat salaries from the GLCs.

When you think that GLCs are essentially public entities, is it fair that so much income is being concentrated in the hands of so few, especially politicians? Let the professionals with highest level of integrity and competency manage these companies.

How do you see the economic future of Malaysia changing with the Covid-19 pandemic?

Post-Covid-19 will become the new normal for people and businesses as things like social distancing could become a permanent feature. This in turn will give rise to remote offices, WFH concepts and the contactless commercial platform will be the new look, more so with the advent of 5G wireless technology.

Are we ready for this new normal? Do we have the right infrastructure, the right training, the right mindset, the right education? We are talking about a total revamp from the bottom up – for the country this is an opportunity. From education to training to employment to infrastructure, etc. We cannot and must not continue in the current path we are on. While the government talks about having to move to online teaching, what are their preparations to level the playing field between the urban and rural areas as far as connectivity is concerned? Are

they using this opportunity to look at curriculum, to prepare students for a future impacted by climate change, environmental concerns, replacement of the workforce by automation, robotics and AI etc?.

Working from home will become a more sought-after alternative for many workers. Can our systems cope with this extra demand? Already there were so many complaints of slowing connectivity during the MCO. If we expect people to work from home, we have to ensure they have good connectivity and at an affordable cost as well.

I know of one bank in Malaysia which, as a consequence of the MCO, has 80% of its staff working from home. So the whole system of doing things changes, but to enable that system to change requires a rethinking and reconfiguring of so many issues and related concerns.

What would be your recommendations to tide Malaysia over the current economic issues and for it to deal with future challenges?

Let's get our priorities right. What we need urgently now is a comprehensive social safety and social protection policy to protect the vulnerable. Our social protection and social assistance system is inadequate, and this crisis presents an opportunity to fix it. We need to go back to the building blocks and prioritise. How do we get people back into jobs and create jobs for the young people? How do we put money into people's pockets? How do we keep alive the small- and medium-sized enterprises (SMEs) who are the biggest employers?

I have read the latest short-term economic recovery plan. As has been said elsewhere, it is underwhelming. The assistance to the self-employed and those currently unemployed should be given serious attention, as they are among the hardest hit by this crisis. A simpler and more focused stimulus would have been more helpful.

While there are various incentives and financing for SMEs, we must monitor its implementation. The latest Laksana report from the Finance

Ministry reveals that the coverage, or the execution remains slow. The number of SMEs who obtained the SME soft loans funds is less than 2% of the number of SMEs in the country, and same goes for the micro credit loan programme, less than 3% of total micro enterprises received the loan.

I also think that we need more confidence-building measures, although political instability makes it hard to build confidence.

The Covid-19 pandemic has shown that countries with high levels of digitisation and technology are able to respond more swiftly and effectively to the crisis in terms of minimising disruption to business. While Malaysia did not fare too badly, we need to multiply and accelerate efforts especially and particularly so, in terms of digitalising education and ensuring a level playing field for students in the rural and interior areas.

If we fail to do so, we will see even greater widening of income and development gaps between those in the urban and rural areas.

The government should also learn lessons from how food security was a big worry during the MCO, and still remains a big worry now. The agricultural industry – food production – needs to be looked at more closely. How do we secure our food production and supply? How do we increase food production to reduce dependency on imports? How to we make food production a worthwhile career for young people? How do we merge a traditional industry like agriculture with a new age industry like robotics and smart technology? This government has a lot to think about.

One thing is for sure, the rakyat do not want the return of a kleptocratic government. Rakyat must choose leaders with integrity, who are incorruptible, with strong moral values to lead the country. The rule of law must be respected, we cannot have one set of rules for the powerful, and another set for the rakyat. Not only is that unjust, but it is bad for investors' confidence. No one will

come and invest in our country.

Once the moral compass is set right, the leader must also be one who is well read, agile, nimble, pragmatic and realistic – the economy and society are never at a standstill.

What should be the fate of the ECRL project?

Why should there be any change in the ECRL project? It should proceed as agreed upon with the Chinese government. What is vital is that it proceeds without any increase in cost.

It is one of the very few projects that are ready to continue and which can help jumpstart the economy. Instead we have frivolous reports being lodged with the MACC and a lot of time being wasted as MACC is obliged to act on the reports.

Then there are some quarters who are claiming that the ECRL should be halted because it is taking away from much needed government funds. These people do not have their facts straight at all or are not interested in the facts.

The ECRL is 85% financed by a loan from the China Exim Bank. There is a moratorium on the repayment of the loan principle until the rail network is operable in 2027. From now till then, the government need only pay for the interest on the loan. Moreover, the financing terms and long repayment period make the ECRL a prime example of how to utilise cheap foreign financing to aid in the country's economic recovery.

This should be treated as a priority project because we still have to pay interest on the amount drawn down by the BN government earlier. Whether you continue or you dither, the interest has still to be paid. So we might as well start on the project as any delay will add further to the costs.

Instead of trying to slow down or defer the project, the government should instead be accelerating its implementation because it can create multiplier

effects and spin-offs economic activities that are dearly needed at this point of time.

MIDF Research has indicated that every RM1 spent on rail development brings about output of RM2.05 to the economy. And this is only during construction periods. Multiplier effects from economic activities catalysed by the completed railway will be even greater.

Timing is key – further delaying the project would mean being unable to leverage on the expected benefits at the opportune time. The– the pandemic will not last forever. When a vaccine is developed, the global economy will recover and recover fast. Malaysia has to be ready to capture those opportunities in a timely manner. Malaysia cannot be sitting by and waiting for things to happen before reacting. They have to start planning now. Seeing as to how the ECRL does not require government funds in order to proceed, it should be encouraged instead of being delayed.

Furthermore, even though the ECRL is a foreign funded project, it is a Government owned project. There is 40% local participation, and this is a minimum amount. This means the resumption of the ECRL will see local contractors in particular being able to leverage on the works generated by this project in the absence of anything else being planned by the PN government.

What the new critics of ECRL is not talking about is the other big ticket project, the HSR, which is now postponed to December. This is an even more expensive project and one that has many hidden pitfalls for the country as well. If we go ahead with the HSR project later and in accordance with its original conditions, I fear Malaysia will be giving up her sovereignty to Singapore. Many people do not seem to be aware that under the original agreement, Singapore would have equal say over the use of the rail line within Malaysian borders. So for instance, if Malaysia wants to link the HSR line with the ECRL, Singapore can object and they will object because they know that such a linkage will affect their port industry.

Why don't you, the press, get experts to study the agreement and publish your findings. Malaysians must be alert and exercise their right of expression. Unless we take an interest and participate, the government will think that it is doing the right thing.

Let me also say that it took a lot of effort to win a re-negotiated deal that not only saved the country billions of ringgit but which was also better and safer for the country in the long run. Issues like palm oil purchases, investment, joint operations and maintenance, increased local component and other corridor investments were all fringe benefits of the renegotiated deal. – June 21, 2020.

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