

Malaysia sees chance to forge model that puts knowledge first

Interview

Najib Razak

Malaysian finance minister

A services-based economy may arise from the downturn, writes John Burton

Malaysia is unlikely to achieve a firm recovery in growth until 2011 but will use the downturn to form a "new economic model" focused on services rather than manufacturing, Najib Razak, the country's finance minister, said yesterday.

Mr Najib, who is expected to become Malaysia's prime minister on March 31, said his goal was to increase the service sector to 70 per cent of gross domestic product, from 54 per cent, in an effort to establish "a knowledge-based economy" that would be less reliant on manufactured exports.

"This is part of the transformation of the Malaysian economy. Services offer tremendous



'We can no longer rely on cheap labour . . . for our manufacturing'

Najib Razak

scope for growth," Mr Najib told the Financial Times in a rare interview with a foreign publication a day after he published a M\$60bn (\$16bn, €13bn, £12bn) stimulus package to prevent the economy from sinking into a deep recession. The government forecasts a growth rate of plus 1 per cent to minus 1 per cent for 2009.

Malaysia has one of the world's most trade-dependent economies and the global recession underscores the need to make changes in the country's economic structure, Mr Najib said. Manufactured exports now account for 72.5 per cent of total exports against 14.8 per cent for services.

He identified Islamic financial services as an important area for growth. Malaysia has the world's biggest Islamic bond market when interest in Islamic

finance is growing as an alternative to western capitalist models.

In addition, Malaysia wants to expand such service industries as healthcare by attracting more foreign patients and to become a regional centre for education and eco-tourism.

Mr Najib also hopes to focus more on high value-added manufacturing in electronics, biotechnology and green technology. "We can no longer rely on cheap labour as a basis for our manufacturing," he said.

Malaysia intends to reduce its dependence on its traditional export markets in the west, such as the US, by expanding trade links with south-east Asia, India, the Middle East and China.

Mr Najib said he favoured gradual reform of the government's policy of preferential treatment of the ethnic Malay majority population to help support economic restructuring.

The policy, introduced by his father as prime minister in the early 1970s, has been criticised for forming an inefficient economy based on ethnic politics that have put the country's Chinese and Indian minorities at a disadvantage.

"We must accept policies that are attuned to the changing times", although "we cannot have too drastic a move until people are ready for it", he said in apparent reference to the widespread support that the pro-Malay policy enjoys in the United Malays National Organisation, the dominant party in the governing coalition that has ruled Malaysia since independence in 1957. Mr Najib is poised to become Umno leader as well as prime minister in late March.

As part of the easing of the pro-Malay policy, Mr Najib suggested rules on foreign investment in the services sector would be relaxed. Foreign investors are required at present to have ethnic Malay shareholders in such industries as financial services.

He said the pro-Malay policy had successfully raised living standards for the majority population but he acknowledged some mistakes had been made in implementation. He said he favoured a return to his father's original vision of improving conditions for the poor of all ethnic groups, not only Malays.

Mr Najib's stance on the issue could undercut support for the recently resurgent opposition, led by Anwar Ibrahim, which made a similar argument in attracting ethnic minority voters last year when it increased its parliamentary representation and captured several state governments for the first time.