

Malaysian Economy Under PM Abdullah Ahmad Badawi

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State of Malaysian economy when PM Abdullah Badawi took over

- Years of high growth
 - Recovery from 1997/98 crisis
 - Strong external sector
- But,
- Keen challenges to its competitiveness
 - Pegged currency
 - Persistent public budget deficits
 - Not so successful privatisation projects

Comparison of economic performance

1990-1997

| | Malaysia | Singapore | Thailand | S. Korea |
|------------------------|----------|-----------|----------|----------|
| Avg GDP Growth (%) | 9.2 | 8.8 | 7.4 | 8.2 |
| Avg Exports Growth (%) | 14.1 | 12.4 | 14.2 | 10.6 |
| Avg FDI (US\$ bn) | 5.19 | 7.5 | 2.28 | 1.01 |

1999-2004

| | Malaysia | Singapore | Thailand | S. Korea |
|------------------------|----------|-----------|----------|----------|
| Avg GDP Growth (%) | 5.3 | 4.6 | 4.9 | 6.1 |
| Avg Exports Growth (%) | 10.0 | 9.2 | 11.0 | 12.4 |
| Avg FDI (US\$ bn) | 2.78 | 13.09 | 3.22 | 5.68 |

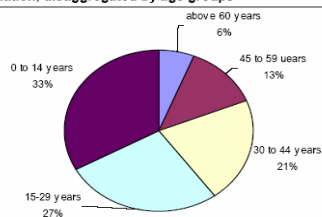
Sources: Bank Negara Malaysia; Department of Statistics, Singapore; Ministry of Finance and Economics, S.Korea and Bank of Thailand

Domestic strength

- **Macroeconomic stability & sound fundamentals**
- **Policy flexibility**
- **High investment and saving rates**
- **Well developed institutions – governance, public sector, financial sector, civil societies**
- **Flexible economy**
- **Robust external sector**
- **Relatively well educated, young labour force**
- **Pro-business Government, political stability**

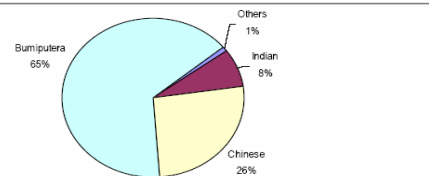
The youth

2003 population, disaggregated by age groups



Ethnic composition

Ethnic split



Company data, CSFB estimates

Vulnerable to global and regional economic volatility

- Uncertain growth prospects for global economy
 - US twin deficits, dollar
 - Terrorism, SARS
 - Rising oil prices
- Emerging competition and opportunities:
 - China: competitor in both labour-intensive and skill-intensive products but offers huge market
 - India: centre for outsourcing but has huge potentials in infrastructure projects
 - Regional economies: Thailand, Indonesia, Vietnam

Malaysian economy is at a crossroads

- **Need new sources for economic growth** - What are the future key competitive sectors?
 - To achieve reasonably high growth rate
 - To generate employment
- **Private sector to resume its role as engine of growth – investment and entrepreneurship**
- **Enhancing competitiveness**
- **Producing a globally competitive workforce**
- **Is Malaysia changing fast enough to meet the challenges? Is existing capacity sufficient -**
 - Institutions
 - Human resource
 - Regulatory framework

Where Malaysia has gained

| Competitiveness | Strengths |
|--------------------------------|--|
| Economic | 1. Resilient economic performance 2. Sound policies and regulatory framework |
| Business | 1. Prevalence of foreign technology and world best practices 2. Attractive incentives on advanced technology products |
| Investment | 1. Among the better managed economies 2. Strong government support towards investors |
| Non-economic indicators | 1. Good public facilities 2. Good living environment |

Where Malaysia is losing

| Competitiveness | Weaknesses |
|---------------------|---|
| Economic | 1. Corporate governance of public institutions (red tapes, inefficiencies) 2. Declining technological competitiveness |
| Business | 1. Limited skilled labour 2. Limited market opportunities 3. Policies can become hindrance to private enterprise and competition |
| Investment | 1. Labour costs becoming less competitive 2. Productivity has not reached pre-crisis level esp. middle upper management team (manager, corporate boards) 3. Limited innovative capability |
| Non-economic | 1. Image on corruption worsening |

PM Abdullah Badawi to continue with Dr. Mahathir's policy albeit with a little tinkering?

- Deferment of mega projects
- Less focus on infrastructure projects
- Open bidding for contracts
- Allow foreign equity purchases in sensitive sectors – Singapore buying of Telekom Malaysia, health sector, Proton
- Reduce budget deficits
- Reduce income disparities between rural and urban

But kept Dr. Mahathir's key ministers

New direction for Malaysian economy - moving from hardware to software

- Agriculture and biotechnology
- Services as a new source of growth – tourism, education and health services and logistics
- Improvement in public sector delivery system
- Revamping of Khazanah and GLCs – to get better returns through meeting key performance targets
- Strengthening human capital
- Prioritize mega projects
- Malaysia as an Islamic financial centre

Khazanah and GLCs – cornerstone of PM Abdullah Badawi's corporate restructuring

- ❑ A Temasek in the making?
- ❑ Separating govt.'s role and ownership of GLCs
- ❑ Investing abroad
- ❑ Key performance index (KPI) for managers of GLCs
- ❑ Professional managers vs entrepreneurs
- ❑ Social role of Khazanah

Is it only differences in style?

| Issue | Mahathir | Abdullah Badawi |
|-------------------------------------|---|--|
| Proton | Save proton by strengthening its technological capability. Use AP judiciously | Liberalisation & more competition, less nationalism, no more AP in 2010 |
| Ringgit | Appreciate ringgit to control rising inflation and impact of rising oil prices | Remove petroleum subsidy. Ringgit has not moved much since de-pegging |
| Inflation | Cost competitiveness is critical | Unclear |
| Who is in charge of economic policy | Dr. Mahathir Identified industries, projects | Civil service background Consensus |
| Investment policy | High investment, led by private sector | Reduce budget deficit |
| Economic integration | East Asian economic community, but allowed full integration with global economy | Inclusion of Australia and New Zealand in East Asian Summit Many FTAs |

Performance thus far – macro performance

| % change | 2004 | 2005 | 2006 |
|---------------------|-------|------|------|
| GDP | 7.1 | 5.3 | 6.0 |
| Private expenditure | 13.1 | 9.5 | 7.4 |
| Public expenditure | - 2.1 | 3.1 | 3.0 |
| Exports | 16.3 | 8.4 | 8.9 |
| Imports | 20.7 | 7.6 | 10.0 |

- Reserves: US\$ 73 bn , 6.7 x short-term external debt
- Budget deficits: 4.3% of GDP in 2004 to 3.8% in 2005
- Inflation (CPI) 2004 was 1.4%, 2005 is 3%
- Unemployment at 3.5%

At micro level, economic growth is not so evident

- ❑ Few jobs for contractors
- ❑ Rising inflation
- ❑ Graduate unemployment
- ❑ Postponed implementation of GST
- ❑ Lackluster performance of the stockmarket
- ❑ Little improvement in the govt. delivery system

9th Malaysia Plan – to be announced on 31/03/06

- ❑ Human capital
- ❑ Agriculture
- ❑ Income distribution
- ❑ Biotechnology
- ❑ Bumiputera agenda

Economic priorities

- ❑ Generate economic growth
- ❑ Control inflation
- ❑ Create employment
- ❑ Recycle domestic liquidity
- ❑ Better use of reserves
- ❑ Attract FDI
- ❑ Revitalise capital market