

Economic and political developments in Malaysia

New players, new game?

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There were two big game-changing events in Malaysia in 2009. Dato Sri Najib Razak became the country's sixth prime minister and the economy was hit by the global crisis.



Malaysia avoided financial meltdown in the current crisis because of the financial reforms it made after the 1998 Asian Crisis. But the decrease in export demand drove the economy into recession. Manufacturing exports plummeted by 19 per cent in the first quarter of 2009 and by 14.5 per cent in the second quarter. The fall in exports was the main factor behind the contraction in growth from 6.2 and 3.9 per cent over the same two periods.

This difficult economic situation was part of the challenging backdrop facing Dato' Sri Najib Razak when he took office as Prime Minister on 3 April 2009. Political uncertainty arising from the 12th General Election a year earlier lingered and political alignments were unstable. Federal and state elected representatives from all sides were seemed on the verge of switching allegiance. The formation of a new government was not out of the question. When the Barisan Nasional (the National Front, the ruling coalition at the Federal level) seized control of the Perak State Government from the Pakatan Rakyat (the People's Pact), which had won the State during the 2008 election one of these realignments actually took place. This power shift is still being contested in the courts.

The new Prime Minister coined a new slogan: 'people first, performance now.' Tackling the economic downturn was obviously a high priority. Dato' Sri Najib, also the Minister of Finance, introduced a second fiscal stimulus package in March 2009 that augmented the first, launched in November 2008. The two packages total RM67 billion (US\$18 billion) and are the largest ever made in Malaysia. They are expected to raise the fiscal deficit to 7.6 per cent of the GDP. That and a stabilizing world economy are expected to lessen the fall in Malaysia's GDP from -2 to -3 per cent, an improvement on the previous estimate of -5 to -6 per cent.

Liberalization measures were launched to improve economic competitiveness, including the allowance of full foreign equity ownership for 27 services sub-sectors and standing down the Foreign Investment Committee that regulated the 30 per cent Bumiputera equity quota. The 25 per cent Bumiputera share requirement for stock market listing was also relaxed. These changes to the Bumiputera equity rules were in response to the distortions in their implementation and the failure to achieve the 30 per cent equity target of the New Economic Policy introduced by Najib's late father, Malaysia's Second Prime Minister Tun Abdul Razak, in 1970. A new mechanism, the Ekuiti Nasional Berhad (Ekuinas), was created to address this problem.

Prime Minister Najib introduced two initiatives to address major public concerns: the '1Malaysia' concept to repair fraying national unity, National Key Result Areas and key performance indicators for Ministries and ministers, aimed at improving public sector governance.

Corruption continued to attract attention with the unraveling of the Port Klang Free Zone. These misdeeds involved key figures in the Malaysia Chinese Association (MCA), a major partner in the ruling coalition. The death of a witness after questioning set back the Malaysian Anti-Corruption Commission's efforts, leading to calls for further improvement of the newly strengthened body.

Both coalitions, Barisan Nasional and Pakatan Rakyat, had internal problems. Major parties within Barisan have not fully focused on regaining popular votes because of leadership struggles in among the parties. UMNO, however, has been made more democratic and responded to grassroots demands. If these changes work they can restore UMNO relevance. For Pakatan, the ideological disparity of its component members, which were papered over for the purpose of a united front during the 2008 general election, became more evident, especially in those states that it had won and on the issue of an Islamic state.

Never has an incoming Malaysian prime minister faced so many challenges. Dato' Sri Najib has been decisive and some degree of stability has returned to both economics and politics, but structural challenges remain. The current global economic crisis has further widened the gap between actual GDP growth and the rate of growth needed to realise Vision 2020. A new National Economic Advisory Council (NEAC) was asked to prepare a plan to lift Malaysia out of its middle income trap.

The recovery of the Malaysian economy in 2010 will depend on the strength of the global upturn. Meanwhile, on the political front, the Barisan will try to consolidate its position before the next general election.

This is part of the special feature: 2009 in review and the year ahead.

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