

Malaysia to be at the heart of the Asian century

AHEAD OF THE CURVE:
Foreign endorsement vindicates economic policies

AT the start of 2012, the global economy hung in the balance as the pace of recovery weakened and a great deal of uncertainty prevailed. The 17 Eurozone countries were a major cause of this, along with patchy American economic growth and stubbornly high unemployment rates.

Only Asian and large emerging economies performed credibly, effectively preventing the world from sinking into recession. Towards the latter part of the year, the additional threat of the United States "fiscal cliff" — basically a combination of revenue and automatic expenditure cuts — added to the risks.

In contrast, 2013 has started on relatively firmer footing. The fiscal cliff has been averted for the time being and Eurozone economies, although still languishing, have not collapsed.

To make matters better, various US economic indicators in the last quarter have also starting pointing upwards, raising confidence levels

about recovery. There are now glimmers of hope, whereas before, there was none.

To be sure, the world economy is not out of the woods. A vicious spiral of public debt, unemployment and reduced incomes continue to plague high-income economies. China, which has been the major contributor to the post-Lehman global growth, is moderating.

Against a backdrop of countries struggling for every per cent of economic growth, Malaysia's 5.1 per cent last year was highly respectable and this year, the expectation is that the economy will grow by a further five per cent.

It is no wonder that the International Monetary Fund's top official, Christine Lagarde, hailed Malaysia as one of Asia's most dynamic and innovative centres during her recent visit to Malaysia.

She also lauded Bank Negara Governor Tan Sri Dr Zeti Akhtar Aziz as "one of the best central bankers in the world", noting that the financial system had matured under her watch and that Malaysia had been relatively unaffected by the disruptive influences of hot money.

Lagarde acknowledged that capital inflows bring great benefits but

can also overwhelm countries with their volatility. She conceded that Malaysia was "ahead of the curve" in the use of capital controls, which she said could be useful in certain circumstances. The IMF had been a harsh critic of these measures before.

For former prime minister Tun Dr Mahathir Mohamad and his team, it was another vindication of his controversial policies, that is, if he needed any.

But Lagarde also urged Malaysia to overhaul its tax and subsidy regimes to achieve inclusive growth. She noted that Malaysia's public finances were among the weakest in the region, due to its high level of indebtedness and dependence on commodity-linked revenues for financing, where prices are highly volatile.

Her remarks were in no way new, of course, as the current government has planned to initiate a Goods and Services Tax, which will diversify and stabilise the revenue base, and also begun to rationalise subsidies, while maintaining support for low-income households.

The need to lower the federal budget deficit is explicit in the 2013 Budget. At a time when excessive



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International Monetary Fund's Christine Lagarde (right) says **Malaysia's financial system has matured under the watch of Bank Negara Governor Tan Sri Dr Zeti Akhtar Aziz.** Bernama pic

public debt is widely debated, international credit rating agencies such as Fitch, Moody and S&P have repeatedly warned of the consequences of not adhering to greater budget discipline.

It is believed, not without reason, that these efforts may have been delayed owing to the 13th general election.

But the Malaysian economy is still largely consumption-driven and care has had to be taken to ensure that it is not derailed by these measures. This is especially true since net exports have not contributed as much as in the past.

Moreover, if the current momentum of investment continues, primarily in infrastructure, oil and gas, and property, the government will have further scope to diversify the tax base and lower the budget

deficit without impacting growth. Likewise, increases in civil servant pay and cash handouts for low-income groups will also help prop up growth.

Other assessments such as the World Bank's *Doing Business* report, the International Management Development Centre's *World Competitiveness Yearbook* and AT Kearney's Foreign Direct Investment Confidence rankings all show Malaysia to be have made vast improvements.

In her closing remarks, Lagarde said that she was certain Asia was destined to provide strength and leadership to the global economy of the 21st century and Malaysia was poised to contribute and share even more in its prosperity.

The 21st century is indeed the Asian century and Malaysia will be at the heart of it.