

ELECTIONS '08 DAILY POLICY FACTSHEET #5: ECONOMY AND DEVELOPMENT

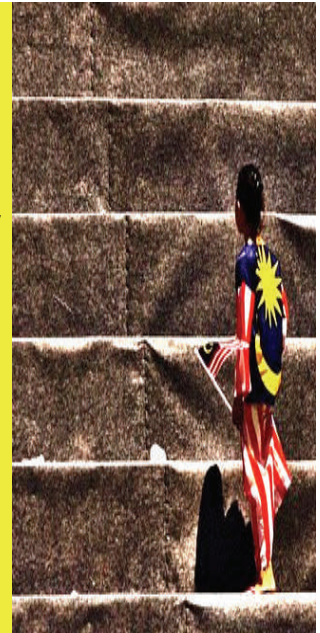
CPPS is pleased to bring to you its “**CPPS Policy Fact Sheet**” as a build-up to the **Malaysian General Elections 2008**. In this daily series between nominations and polling day, we will explore **key policy issues** that we feel are important in informing your voting decision. Policy decisions made by leaders have a direct effect on your life as a citizen, and the elections is this one crucial time you decide on your leaders. We hope these fact sheets will be useful policy briefs as you decide whom to vote for. Here's to an **educated and informed voting public** in Malaysia! Please click [here](#) to access pdf versions of our factsheets.

BACKGROUND

Malaysia has often been compared with Ghana, both countries having gained independence in the same year but one having overtaken the other economically by leaps and bounds. It is true that Malaysia has achieved **tremendous economic growth** in the past two decades, an average of **5% growth** in recent years. Malaysia has also been fairly successful in bringing down **hardcore poverty to 1.2%** as of 2004, and **poverty to 5.7%**, achieving its Millennium Development Goals in advance.

However, recent indicators show that the nation's mantra of “**growth with equity**” is becoming increasingly difficult to achieve, the gap between the rich and the poor rapidly **increasing**. The nation's wealth is **top heavy**, and flows to the lower and middle class of society are blockaded by a **system rife with corruption**. In a country with such rich resources, Malaysia's economy could have skyrocketed beyond its current achievements if it had not engaged in practices leading to massive wastage (US Morgan Stanley estimated that corruption cost Malaysia US\$100 billion in the past 20 years). Malaysia has the **highest Gini coefficient in Asia**, where the wealth and growth of the nation is amassed by the top layers.

Race-based affirmative action policies have permeated almost every sector in the country, ranging from corporate equity targets to contract quotas and housing loan rates. Originally conceived for an honourable purpose, it has contributed to elevating the Bumiputera community significantly, but has to a large extent been **misused** and abused for the benefit of a selective few. For economic development to benefit **all Malaysians alike**, ethnicity should no longer be the criteria by which the nation's wealth is distributed. Instead, a needs-based policy where all Malaysians are given equal opportunity will also lead to a more liberal economy and **greater international competitiveness** in the long-run.



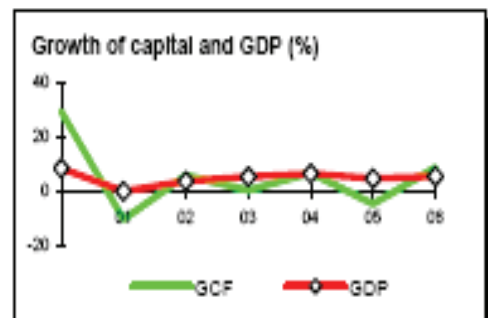
FLASH POINTS

- The **New Economic Policy (NEP)** was implemented from 1971 till 1990, followed by the National Development Policy (1991-2000) and finally with the National Vision Policy (2001-2010), which we are currently under.
- 2008 marks the mid-point of the 9th Malaysia Plan's implementation, whilst we are also under the IMP3 (Industrial Master Plan)
- **Malaysia's GDP has grown** from USD28 bn in 1986 to USD150 bn in 2006, a significant increase.
- Although the **Poverty Line Income (PLI)** has been revised in the 9th Malaysia Plan, the average national PLI is only RM691 – anyone earning even slightly more than that is not considered “poor”. (Hardcore poverty line is RM415) (see “*How to Understand PLI*” section below)
- The **Gini coefficient** that measures income inequality was 0.462 in 2004, up 0.01 from 1999. (The Gini measures the gap between the rich and the poor, the closer to 1 the worse the inequality.) Malaysia's Gini is the highest in Asia. The highest Gini is amongst the Bumiputera community. (9th Malaysia Plan)



BASIC STATISTICS AND FACTS

- **GDP grew** at an estimated 5.0% in 2005, 5.9% in 2006 and 6.0% in 2007
- **Unemployment rate fell** from 3.3% in 2006 to 3.1% in the 3rd Quarter of 2007.
- **Per capita income grew** from RM20,841 in 2006 to RM22,293 in 2007 Q2.
- **International trade grew** 26% from RM881 billion to RM1.1 trillion between 2004 and 2007
- Stock **market capitalization** reached RM1.2 trillion in 2007.
- The **KLCI futures** have opened **lower** the past few days, February 2008, reasons cited as US slowdown in economy and outcome of the General Election.
- **International reserves** reached USD101 billion in 2007



HOW WE RANK

- **21st in the Global Competitiveness Index 2007-2008**, dropping 2 ranks down from 19th a year ago. Out of all of the indicators within the sub-indexes, its worst performer was under “macroeconomic stability”, ranked 45th out of the 131 countries examined.
- **21st in the Business Competitiveness Index 2007-2008**.
- **63rd in the Human Development Index**, in the United Nations Development Program’s Human Development Report 2007/2008, categorized under “High Human Development” down from 61 in the previous year, although the index value itself increased to 0.811
- **51st in the 2008 Index of Economic Freedom** (64.5% showing moderate freedom)
- Malaysia’s reforms improved ease of doing business in “starting a business” and “paying taxes” (World Bank’s Doing Business Report 2008)
- Of the various sub-topics, we performed worst on “dealing with licenses” and better on “getting credit”. Malaysia performed poorly on costs to start a business, with **18.1% of income per capita** needed to start a business compared with 0.8% in Singapore.

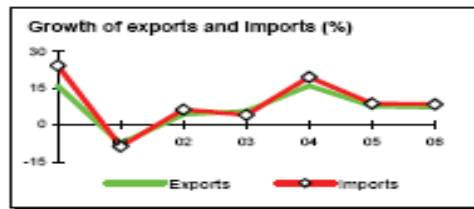
VISUALS



Export levels have **steadily increase** in recent years.

KEY ECONOMIC RATIOS AND LONG-TERM TRENDS

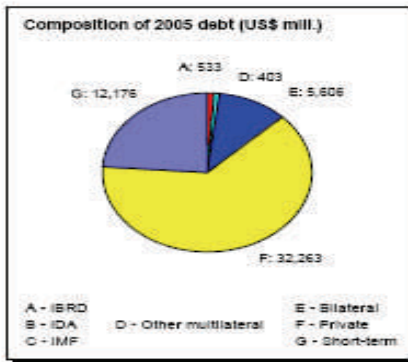
GDP (US\$ billions)	1986	1996	2005	2006
	28.2	100.9	136.7	150.7



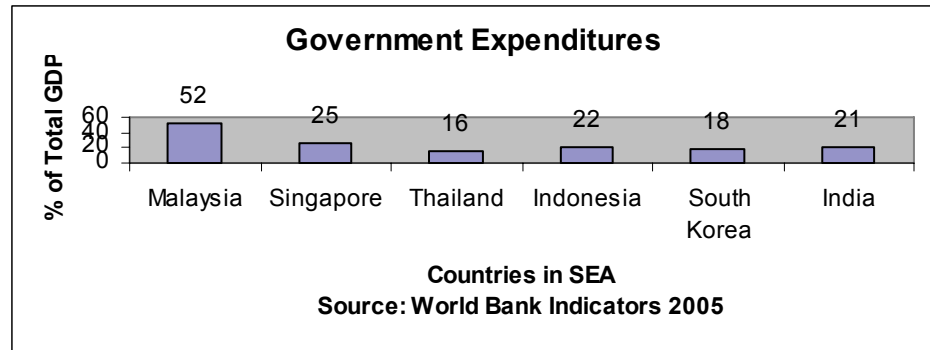
After increasing significantly, growth of both exports and imports have somewhat reached a plateau.



Malaysia observed **increasing** current account balance to GDP ratios.



Bulk of Malaysian debt was attributed to **private debt**.



Malaysia spent **52% of its GDP on Government Expenditures**, compared with 25% in Singapore and 16% in Thailand.

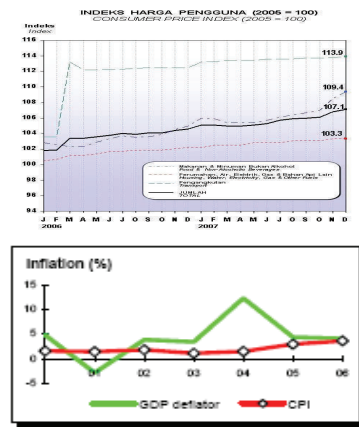
SNAPSHOTS OF THE NEP

- Two-pronged strategy to **eradicate poverty regardless of race** and to **eliminate association of race with job function**
- **Original target:** Malays and other indigenous people manage and own 30% of total commercial and industrial activities; and 30% ownership of productive wealth.
- From 2nd to 3rd Malaysia Plan, additional emphasis was placed on achieving **30% “equity capital”**.
- In 6th and 7th Malaysia Plans, less emphasis was on numerical targets but a focus on **general management and operation of wealth** - wealth creation, holding onto and adding onto wealth.
- In the 9MP, **Bumiputera own 18.9% of corporate equity**, below its target of 30% although several studies have shown otherwise.
- The NEP has ended, but continued in the form of **NDP** and **NVP** (present) and broadly refers to **affirmative action for the Bumiputera** in social, economic, corporate, distributive trade, and educational aspects. Its relevance has been debated recently, with some groups calling to replace this with a non-race-based affirmative action policy, focusing instead on **need and meritocracy**.



PRICE ON THE RISE

- Average annual change in Consumer Price Index (CPI) between 2004-2005 was **3.0%**.
- Inflation rate jumped from 1.9% in October to 2.3% in November 2007 and analysts expect a **higher inflation rate in 2008**.
- Petrol price increased by **30 sen in 2006**.
- Toll rate hikes in recent months have increased on six highways ranging from **9-50%**.
- Rice prices increased by between **5 and 8%** in July 2007.
- There was a **3.8% surge in the price of food and soft drinks** by the end of 2007, the biggest in two years.
- Malaysia rationed **cooking oil** in January 2008 in the face of rising food prices.

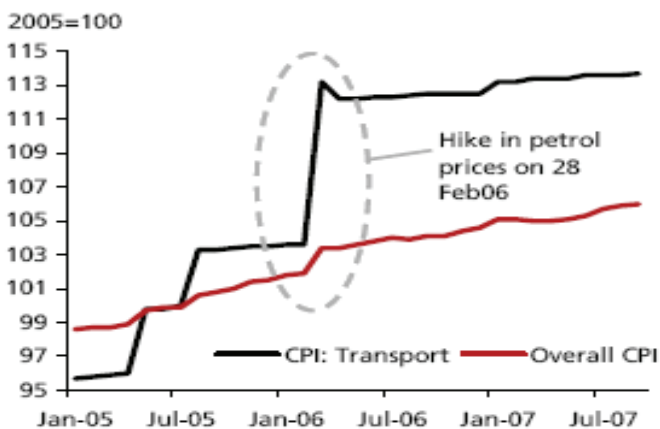


PETROL POINTERS

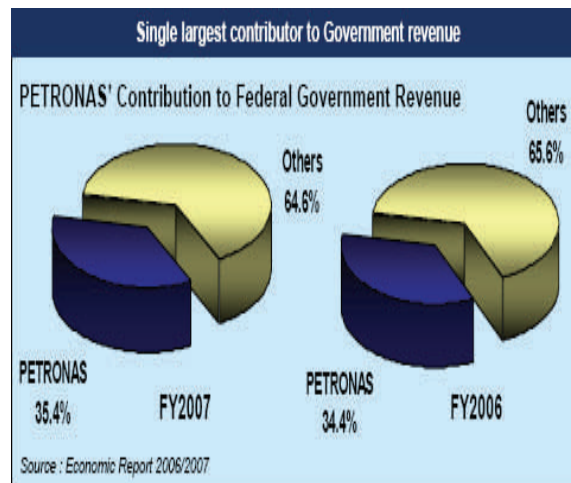
- Malaysia spent **RM16.2bn** on petrol, diesel and gas subsidies in 2007.
- Malaysia is a **net exporter of crude oil** and has been subsidizing domestic petrol prices heavily.
- Government's previous cut of RM4 bn in fuel subsidy resulted in petrol prices increasing an average of 21% in Feb 2006
- Fuel subsidy is likely to reduce further in the next 1-2 years, which will **increase petrol prices**.
- Petronas has returned **RM336 bn to the Government** over the past 33 years. It paid RM52.3 bn (FY07) or **66.2% of its total profit to Government**.
- Petroleum Development Act 1974 states that "the corporation (Petronas) shall be subject to the **control & direction of the Prime Minister** who may from time to time issue such direction as he may deem fit." Petronas is an off-**budget agency** whose expenditures are **not** by law accountable to Parliament.
- If Malaysia continues its current growth rate of 4% annual oil consumption, Malaysia will be a **net oil importer by 2010**.
- Petronas has a Legacy Fund (**Tabung Warisan**) to ensure reserves are not depleted but there is insufficient available information.



Chart 2: Effects of hike in fuel prices



* DBS Research



*Note : Excludes 2nd interim dividend of RM6.0 billion and final dividend of RM10.0 billion for FY2007 and to be paid in FY2008

Graph: "Petronas Financial Highlights Report 2007" – page 17

*http://www.petronas.com.my/internet/corp/centralrep2.nsf/frameset_map_corp?OpenFrameset

WHAT HAVE SOME LEADERS SAID?

BN: Global prices of raw materials caused price increase in goods and services. Fast pace of economic development in China and India contributed to surging demand for raw materials. BN continued to maintain low controlled prices on rice, flour and petrol.

Deputy Prime Minister Datuk Seri Najib Tun Razak: If we further subsidise petrol prices, the Government will go bankrupt. We already have one of the lowest prices in the region. If we don't find more oil fields by 2011, we may be become a net importer (of petroleum products). (31st Dec 2007, NST)

DAP: 50% of oil and gas windfall should be earmarked for investment in human capital.

PKR: Malaysia is a net exporter of oil. PKR promises to lower the price of petrol in line with higher Petronas profits.

Second Finance Minister Tan Sri Nor Mohd Yakcop: Per capita income has increased by 40% between 2004 and 2007, from RM15,819 to RM22,345.

How To Understand the PLI?

The PLI is divided into the Food PLI and Non-Food PLI. The PLI is defined separately for each household based on size, demographic composition and its location. A household is considered **poor** if its household income is less than its own PLI. It is considered **hardcore poor** if its monthly income is less than the Food PLI.

- **Food PLI** is based on advice of nutritionists, dieticians and medical professionals.
- The **Non-Food PLI** is based on actual expenditure of the bottom 20% expenditure group derived from the household expenditure survey.

* Incidence of poverty in Malaysia is 5.7%, whilst incidence of hardcore poverty is 1.2%

PARTY MANIFESTOS

BN (2008 Manifesto)

Promises:

- Raise the nation's productivity, income and competitiveness levels
- Cushion effects of rising prices and ensure quality living standards for the people
- Strengthen private sector's role as main driver of economic growth
- Generate 2 million job opportunities
- Reduce Budget deficit
- Follow through 5 Development Corridors
- Nurture and assist 1 million SMEs and entrepreneurs

MCA (5-Year Economic Blueprint)

- Achieve good governance and government integrity through economic efficiency and prosperity
- Leverage on economic corridors to ensure all communities benefit with focus on SMEs
- Build an efficient, productive talent pool to build a power house of knowledge (KTAR, UTAR, KOJADI)
- Setting up of a Global Entrepreneurship Expansion (GEE) Plan to connect companies together seeking joint ventures.
- Leading change and transformation by promoting new sub-sectors of the future (ICT, modern agriculture, biotechnology, etc.)

The People's Declaration

- Reduce the tax burden
- Eradicate absolute poverty
- Assist petty traders and hawkers
- Improve public transport services
- Enhance domestic demand and productive investment
- Strengthen competitiveness, greater geographic dispersal of industry, develop resource-based and hi-tech industries
- Strengthen small and medium-sized enterprises, agriculture and fisheries
- Strengthen financial system

PAS (2008 Manifesto)

- Place state-owned oil company Petronas under Parliament to ensure accountable and transparent spending of nation
- Ensure price of petrol is reduced and maintained to suppress inflationary pressure
- National Development Plan that avoids mismatch of resources with needs
- Invest in human resource development and alternative energy
- Reduce income and equity disparity regardless of race

PKR (2008 Manifesto)

Vision:

- Immediately reduce the price of petrol in line with continuously growing Petronas profits
- Restructure market systems to encourage price reductions
- Re-examine concessions and monopolies so they do not yield disproportionate profits for corporations
- Make schemes available to allow Malaysians to own equity in GLCs
- (Malaysian Economic Agenda): The NEP must be replaced with an economic agenda to assist and help poor Malaysians regardless of race. (with KPIs)
- Accountability, transparency and financial discipline. Protectionism needs to go.

DAP

- Create equal opportunities based on merit and need
- Reduce income inequality, reduce reliance on foreign workers
- Promote fair wage
- Attract quality investments with high paying jobs
- Economic policies and reform must be accompanied by reforms in the judicial system.
- Reduce personal income tax by 1% to attract foreign talent
- Improve utilization and allocation of existing revenues

POLICY RECOMMENDATIONS

- **Greater liberalisation** of the Foreign Investment Committee (FIC) guidelines and regulations to increase **Foreign Direct Investment (FDI)** into Malaysia. Other archaic rules, processes and procedures should be modified to be internationally competitive whilst taking into consideration economic, social and cultural rights of the people.
- There is a need for **less bureaucracy** and more efficiency in Government processes particularly between the State and Local authorities, in order to enhance efficiency of the **Public Delivery System**.
- An evaluation and review of the **Return on Investment (ROI)** of all Government projects. An **output-input efficiency measure** should scrutinise projects in detail especially those involving a large sum of **public funds**.
- To ensure better **resource management** and public accountability, there should be **transparent reporting** of all financial transactions between oil & gas companies and the Government.
- Government expenditures must be shown to be **equitably distributed** according to region, race, and strata, with quantifiable measures indicated in the annual national Budget. Expenditure objectives must be publicly available to ensure **optimal investment strategies**.
- Immediately address the **income inequality gaps** especially within the Bumiputera community. Special attention should be given to urban poverty and the poorest 30% of the nation.

How Well Do You Know Your Candidate?

- What **measures or policies** would you like to see take place in terms of **fostering economic growth and FDI** which you would expect your representative to fight for? Has the party/candidate given specific outlines to this end?
- Has the candidate/party outlined specific measures that will address the **steady increase in prices**?
- Has the candidate/party given useful suggestions on how the country should rightfully **manage its resources**? Are they committed to ensuring **public accountability and transparency of economic decisions**?
- Is the candidate able to **debate** on national economic policies and make wise decisions at Parliament level?
- Has the candidate/party shown great sensitivity to the **economic needs** of the people and made concrete