

Malaysian Opposition's Economic Policies

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Malaysia's former deputy prime minister and finance minister Anwar Ibrahim is widely respected by foreign investors for his tenure around the time of the Asian financial crisis. However, the cost of insuring Malaysian bonds against default has risen sharply since Anwar's coalition took a over a third of the seats in Malaysia's election in March, increasing political risk. The 5-year CDS stood at 140.96 basis points on Monday, up from 91.85 on March 7, the day before the election.

That means it costs almost \$141,000 to insure \$10 million of Malaysian bonds against default. Here is an outline of Anwar's key economic policies, which he says are aimed at taming a budget deficit that will surge to 4.8 percent of gross domestic product this year due to a rise in government spending to 197.21 billion Malaysian ringgit (\$56.88 billion):

1) Tackle what Anwar says is rampant corruption in the Barisan Nasional government. In a press conference last week, he cited the example of 3 billion Malaysian ringgit allocated to the state of Sarawak, of which he said 1 billion ringgit would be "siphoned into the pockets" of companies and individuals linked to the government thanks to special allocations in tenders to ethnic Malay companies.

2) Abandon an 11.3 billion ringgit high speed broadband link, which is too expensive. Raise cash from public tenders, all of which should be competitive and which would generate revenues of 5 billion ringgit per annum from 2009, based on 10 percent of tenders being open. All projects costed at one billion ringgit upwards would be subject to a "rigorous priority review".

All approval permits -- licenses to import cars granted to ethnic Malays (Bumiputras) for a nominal sum which they then sell on for inflated sums to others -- would be auctioned. Based on a price of 25,000 ringgit per permit, that would raise 1.75 billion ringgit on an annual 70,000 permits issued.

3) Reduce the fuel price after the government hiked it earlier this year, in an effort to cut inflation, stimulate the economy and help the country in its current economic slowdown. Anwar said 700 million ringgit in the program, which will cost 21 billion this year, had been identified by the government as waste.

4) Abandon the New Economic Policy. This policy has given ethnic Malays a range of grants, aid, loans and preferential access to higher education, the civil service, company ownership and public tenders. It was intended to offset the economic dominance of ethnic Chinese, who now make up a quarter of the population but hold about 40 percent of the wealth.

Anwar says aid and subsidies must be given to people in need regardless of race and that his proposals would still benefit mostly Malays who are over half the population.

He charges the New Economic Policy has created Malay millionaires and a system of cronyism but not benefited the vast majority of ethnic Malays.

5) End equity ownership restrictions that were part of the New Economic Policy which Anwar says are "now a barrier to investment". He says moving away from equity limitations at an enterprise level will "stimulate investment and FDI (foreign direct investment)".

Eliminate tariffs and other entry barriers to negotiate free trade agreements with other ASEAN countries, Japan and the EU. Upgrade education so as to be able to compete with India, China and Singapore.

Tax rebates for exporters. Anwar says he supports lower taxes in general as a policy measure and believes that although reducing the budget deficit is important, said the developing country can run a deficit of around 3 percent of GDP.

(\$1=3.467 Malaysian ringgit)

Source: Reuters