

Mr. Abdullah's Economic Reckoning

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Malaysia's opposition leader, Anwar Ibrahim, announced this week that he has enough parliamentary support to unseat the current government, led by Prime Minister Abdullah Ahmad Badawi. If he does, Mr. Abdullah's lackluster economic management will be largely to blame.

The prime minister has not introduced any substantive reforms during his nearly five years in office, preferring to rely instead on opening up the government purse. Under the Ninth Malaysia Plan announced in 2005, he expanded public-sector spending to 200 billion ringgit (\$58 billion) annually from 160 billion ringgit. In his Midterm Plan Review this year, he increased this outlay to 240 billion ringgit. The national debt now stands at 285 billion ringgit, up from 192 billion ringgit in 2004. The official fiscal deficit has risen to 4.8% of GDP this year, from 3.2% last year. Revenue is being spent faster than it is coming in.

It's hard to argue that these outlays have served the broad public interest. Much of the funding has been channeled to elites in the majority Malay community, under the country's pro-Malay affirmative action program. That has created discontent with many Malay who don't see the full benefits of the program, and among the minority Chinese and Indians, who are excluded from it altogether.

Mr. Abdullah's stewardship has had a real impact on the economy. Capital flight has risen sharply; Malaysian investment abroad now exceeds inward foreign investment. The Kuala Lumpur stock exchange has lost almost one-fifth of its value this year to date. Malaysia's currency, the ringgit, saw its biggest one-month loss last month since the end of the dollar peg in 2005. Although GDP growth has averaged a robust 5% annual growth under Mr. Abdullah, that record is now under threat. Inflation reached a record 8.5% this summer. Job creation has reached record lows, as unemployment, particularly among young majority Malays, remains high. Ironically, only the opposition-led state governments are attracting new foreign investment -- and without the federal government's help, no less.

Mr. Abdullah's 2004 attempts to promote growth and investment -- such as through the promotion of the biotechnology and agricultural industries -- have failed. He also fumbled discussions with the United States on a free trade agreement, which have now stalled. What Malaysia really needs is education reform and the liberalization of its labor markets to improve its economic competitiveness.

The political opposition, in the form of Mr. Anwar and his Pakatan Rakyat coalition, have seized on these issues. They have promised to root out corruption and to implement a new economic policy to address the concerns of all ethnic communities in Malaysia. Their platform aims to move beyond populist spending to introduce structural reforms in government procurement programs and in the management of government-linked companies.

When Mr. Abdullah assumed office in 2004, he inherited an economy in need of structural reform. Malaysians have had to pay for his poor stewardship through higher prices, stagnating wages and growing private sector debt. Soon, Mr. Abdullah may have to pay the political price for that record.



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