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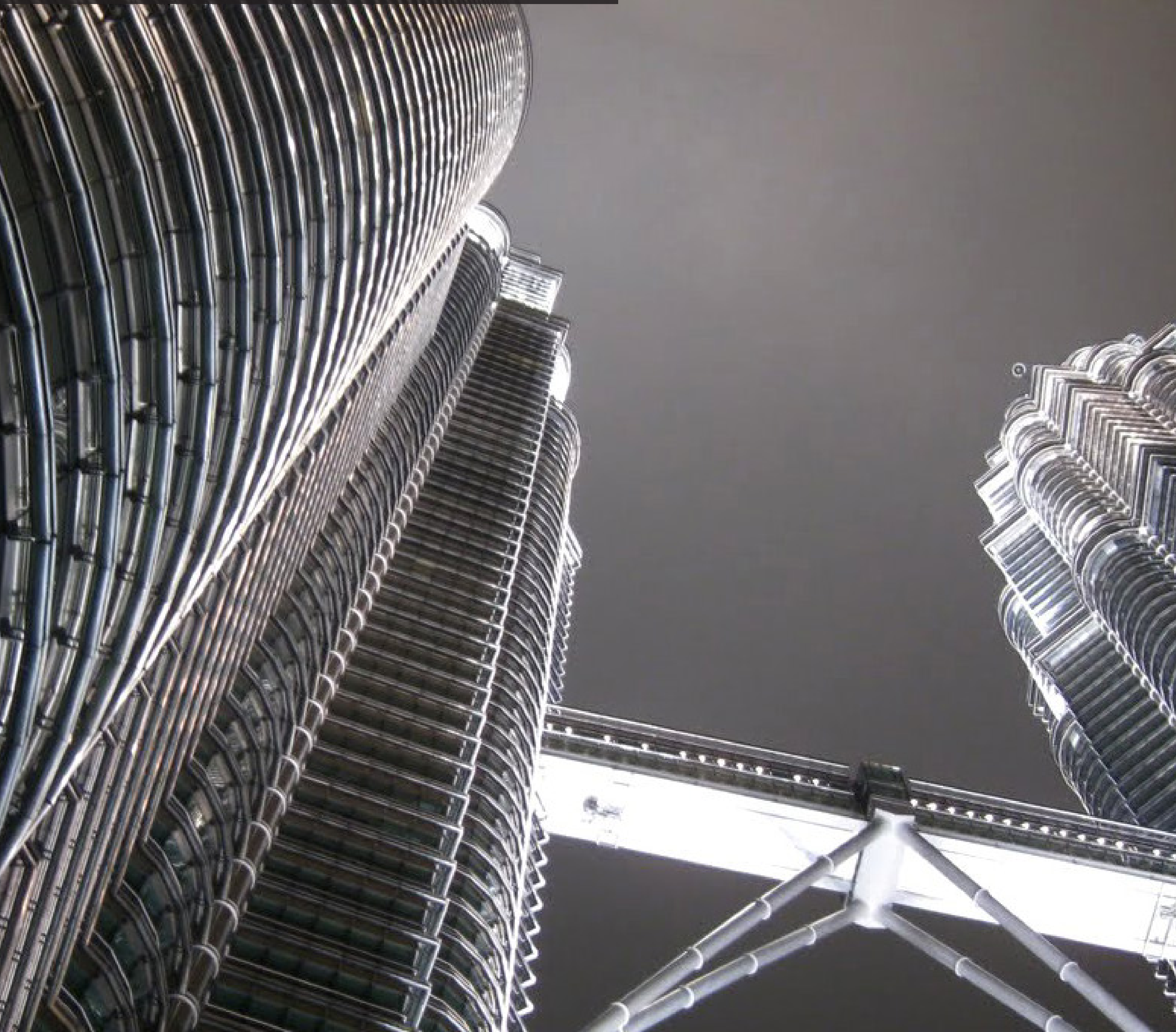

Malaysia's 2020 missed opportunity
Najib Tun Razak's 11th Malaysia Plan

Datuk Ramesh Chander & Bridget Welsh

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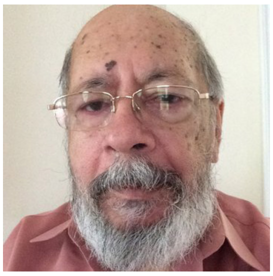

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Malaysia 2020's missed opportunity
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Datuk Ramesh Chander and Bridget Welsh*

As debate in Malaysia's parliament draws to a close on the 11th Malaysia Plan that lays out targets for the country to achieve 'developed' country status by 2020, the focus has primarily centered on the unrealistic assumptions contrived for the macro-economic framework for the blueprint.

Little attention has concentrated on the consistency of the assumptions and how the 11th Malaysia Plan (thereafter 11MP) compares to previous policy frameworks. A close look at the 11MP reveals serious gaps and shortcomings, raising questions about whether the proclaimed milestones of development by 2020 can indeed be achieved.

Underlying macroeconomic fallacies

The 11MP argues that Malaysia will become a 'developed' or 'high-income' country by the year 2020. This is in line with the long-standing 20/20 Vision targets laid out two decades ago. The current plan argues that this transformation will be achieved with the economy growing at an average rate of five to six per cent per year over the next five years resulting in the gross national income (GNI) per capita level of US$ 15,690 by 2020.

The macroeconomic assumptions underlying this trajectory have been questioned and have not been seen as credible. Scholars have highlighted that the Plan begins by failing to acknowledge the shortfalls in projected growth targets in previous Plans and thus begins from an unrealistic starting point[i].

Targets set out in the 10th Five-Year Plan had postulated an average annual growth rate of 6.5 per cent a year over the period of 2010-2020; however during the first half of the decade the level achieved fell short and only reached 5.5 per cent. Simple arithmetic indicates that the country will need to grow at a rate faster than 6.5 per cent in the second half of the decade, to compensate for the prior shortfall. The Malaysian economy must thus achieve a real growth of 7.7 per cent per year over the period 2015-2020 if the targets set in the previous 10MP are to be met.

Other assessments have pointed to inflated projections of growth resulting from a failure to account for conditions in the international economy[ii], particularly lower revenues coming from the global drop in oil and gas prices, the slowdown in China's manufacturing and lower investment, and potential capital outflows from Malaysia tied to quantitative easing in the United States accompanied with a rise in interest rates.

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i Lee Hwok Aun. "11MP Based on Flawed Foundations," Malaysiakini, 23 May, 2015, https://www.malaysiakini.com/news/299358

ii Penang Institute, "Why the lack of excitement around 11MP?" Malaysiakini, 26 May, 2015, http://m.malaysiakini.com/news/299622

Concerns have also been raised about inflated assessments within Malaysia's economy. For instance, the overall growth in GDP is postulated in part on the assumption that household consumption will contribute positively to overall growth. This assumption appears to ignore the role of large household debt, estimated at 88 per cent of GDP, which will reduce household consumption.

Household consumption has been a main driver in the economy over the past few years, primed by public spending. Consumption has been further dampened by the introduction of the GST which has not only reduced demand, but also hampered business due to poor implementation, especially among small business and in country's narrow private sector. Malaysia is reaching record levels of inflation, officially at 2.9 per cent but unofficially much higher. Net exports are likely to only provide a limited amount to GDP as Malaysia's prime markets are likely to record modest growth as traditional sectors of oil and gas and other commodities such as palm oil under deliver due to lower prices.

The most troubling issue is the lack of a clear driver for growth in Malaysia's economy. Public sector spending, already strained by high public debt and a growing deficit that passes the 3.5 per cent threshold when one considers off-budget and contingent liabilities, is lower in real terms than in the 10MP and the proposed engine for growth laid out in the 11MP, the private sector, is in need of serious reforms to engender a more competitive and conducive environment for growth.

The 11MP has effectively abandoned any real economic reforms, as it comes after Najib's expansion of chosen bumiputera affirmative action programs after the 13th General Election and increased politicisation of government procurement, a key tool used to shore up political support.

The problems with the macroeconomic foundations of the Plan have dominated the debate surrounding the 11MP, with the economic fundamentals seen as less than credible and undermining the basis for the blueprint. Rather than acknowledge realities, Najib's Government has chosen to paint an overly optimistic and unrealistic fallacy, to not come clean in relation to the macroeconomic circumstances facing the nation. This fallacy affects confidence, and undermines the ability for the country to actually reach the touted 2020 goals.

Arbitrary targets of 'developed' status

The credibility problem with the 11MP goes far beyond the macroeconomic assumptions underpinning the Plan. The Najib Government is creating arbitrary targets that are not in line with standard international practices.

One key concept embodied in the Plan is that of a 'highly' or 'developed country'; its origin needs to be understood. The World Bank classifies countries by income categories (low-, middle-, high- income) to serve the Bank's needs to establish operational and lending markers. The Bank's website makes clear that low-income and middle-income economies are sometimes referred to as developing economies[iii]. This term is a convenient categorisation; it is not intended to imply that all economies in the group are experiencing similar development or that other economies have reached a preferred or final stage of development. The Bank makes it clear that classification by income does not necessarily reflect development status.

The Bank prepares its classification of countries annually on the occasion of its fiscal year (ending in June 30). The per capita GNI calculations used in the classification employ a well-established methodology known as the Atlas method for converting per capita incomes expressed in national currencies into a common measure (the US Dollar). The method takes into account exchange rate fluctuations in cross-country comparisons.

The Atlas conversion factor for any year is the average of a country's exchange rate (or alternative conversion factor) for that year and its exchange rates for the two preceding years, adjusted for the difference between the rate of inflation in the country, and through 2000, that in the G-5 countries (France, Germany, Japan, the United Kingdom, and the United States). For 2001 onwards, these countries include the Euro Zone, Japan, the United Kingdom, and the United States. A country's inflation rate is measured by the change in its GDP deflator. The calculations are done annually and **are not comparable from year to year and cannot therefore be projected** (emphasis added)[iv]. In other words, the use of per capita incomes as a measurement is not a standard that is used for planning purposes as it does not allow for proper comparison and assessment over time, nor does it have any real meaning when projected in the future as there are too many unknowns to evaluate its value in the future.

Najib's figure of US$ 15,000 in the 11MP has been arbitrarily chosen and has no real meaning. It is a concocted notional figure and then fancifully set as a goal. The reality is that, given the World Bank's methodology, the cut-off for distinguishing 'high income' countries from 'middle income' countries cannot be determined at the present point in time for a date in the future. Projecting future per capita GNI levels (in accordance with the Atlas methodology) requires an array of assumptions pertaining to inflation trends, exchange rates and the emergence of unexpected shocks.

The 11MP fails to offer any clues as to how the Najib Government came to choose the figure of US$15,000 as the determining cutoff and what are the assumptions about the factors that would underlie it emerging in the future. In using the US$15,000 per capita target as the goal as it has, the credibility of the 11MP has been affected.

Missing details on poverty

A basic good practice in planning is to carefully lay out the methodology and assumptions in the numbers used for projections and assessments. Nowhere is this more important that in the analysis of poverty. With self-congratulatory language, Najib's 11MP claims that poverty incidence has declined from 3.8 per cent in 2009 to 0.6 per cent in

iii https://datahelpdesk.worldbank.org/knowledgebase/articles/378834-how-does-the-world-bank-classify-countries

iv The methodology is described at: http://search.worldbank.org/all?qterm=COUNTRY%20CLASSIFICATIONS

2014[v].

No details are provided about the estimated poverty lines used in the calculations. This is unlike previous Plans, notably the 9MP.

The failure to outline the methodology attempts to skirt the persistent concerns regarding how Malaysia's poverty measurements do not conform with international practices. Malaysia's measurements are seen to define poverty below the bar used in international levels and to use 'households' rather than 'persons', obscuring the real scope of poverty in society. In the absence of details, it is inappropriate to make grand claims in poverty reduction.

The perfunctory and non-transparent analysis of poverty in the current Plan raises concerns. Even if we take the number of households listed as 'poor' at face value, when converted to number of 'persons' basis, (persons per households) the number in poverty is actually a staggering number – almost 1.5 million Malaysians live in absolute poverty. The Plan offers no real discussion regarding the composition of these communities, namely that disproportionately the majority live in East Malaysia, are women and children and come from families of multiple generations of impoverishment. It is a most serious state of affairs that after almost four decades of the New Economic Policy (NEP), significant numbers of poverty exist even when a low bar is used to define it.

Not only do the poverty numbers reflect the current failure of the NEP to deliver upon development to all Malaysians, they reveal the shortcomings of the Najib Government in its focus on short-term measures of millions of cash handouts and lack of meaningful policy program to address the status of the country's poorest citizens. The thin accompanying 'strategy papers' with the 11MP do not include substantive ideas to address poverty, from rural development to urban exclusion. What the 11MP reveals is the lack of the political will to acknowledge the need to make adjustments and develop meaningful policy programs on poverty. The lack of a connection to the current conditions faced by Malaysians is especially troubling.

No assessment is made of the impact of the reduction of subsidies. The Plan wholly ignores the question of how implementation of GST or the granting of 1Malaysia People's Aid, or BR1M, cash handouts affects poorer Malaysians. The impression given is that poverty gains are to be lauded and the ongoing problems largely ignored.

A new beginning is needed. To sincerely and fully address the issue of poverty, it is imperative that Malaysian policy-makers first apply the internationally accepted concepts and methodology employed to derive the various Poverty Line Income (PLI) measures and the estimates of poverty incidence.

The current methods are deeply flawed and are not conducive to an honest discussion of the problem of poverty. To the extent there are efforts to distort real conditions facing

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v In the 10th Plan the incidence for the year 2009 was reported as 0.7 per cent. It would appear that the 11MP has undergone serious data revisions without clarity on how these were calculated.

Malaysians, the lack of proper measurement fundamentally affects the analyses and conclusions. In turn, this leads to the adoption of ineffective policies. The World Bank and UNDP, two leading global agencies in analysing poverty, use the concepts of 'absolute' and 'relative' poverty. There are no valid reasons why Malaysia should deviate from standard international terminology and standards.

A meaningful step toward reducing poverty involves using national estimates based on population-weighted estimates from household surveys, rather than unrealistic lower-than-normal bars based on notional estimates of food consumption baskets utilising caloric values that are widely seen as less reliable measures.

A struggle over how to understand and measure poverty is evident in the 11MP. A pitch is made for the introduction of a new 'Multi-Dimensional Poverty Index' based on a tool used by UNDP. In an elaboration of the Index, details are provided of the weights that will be adopted for each of the component elements making up the composite index.

The choice of weights is critical to the viability of the overall index. In the citation provided, no rational is given as to how the weights would actually be calculated. This gap in information does not offer an improvement on current measures as it continues arbitrary calculations of Malaysia's poverty levels. It is crucial that these measures be determined transparently and consistently in line with international standards.

The 11MP also introduces a new concept, namely that of 'B40' households, made up of the households at the bottom 40 per cent in terms income distribution. Some 2.7 million households make up this group. The mean average monthly income of these households is claimed to be RM 2,537; the Plan projects that their incomes will more than double to RM 5,270 by 2020. While some elaborations are provided, there are unanswered questions concerning the consistency of these numbers with other indicators in the 11MP and how these numbers can be achieved given the flawed macroeconomic assumptions underlying the Plan as a whole.

The overall picture that emerges is that the 11MP is laboring hard to project 'feel good' numbers without providing details. The numbers, even though precise to the last digit, are not supported by information concerning data sources, concepts employed and assumptions made in the projections. As Malaysia employs numbers not in line with accepted international practices, this information is necessary for credibility. While the authors can be forgiven for not incorporating such details in the actual Plan document, there is hardly any justification for not providing the relevant detail in the so-called strategy papers or in technical appendices.

Deviating from the past

A centre piece in all Malaysian Five Year Plans, beginning with the Third Malaysia Five Year plan, has been treatment of the two prongs of the NEP, namely the eradication of poverty irrespective of race and the greater equitable distribution of wealth. The issues with the former are outlined above. The latter is essentially missing in the 11MP altogether.

In Malaysia the distribution of wealth has focused upon ownership of share capital by race[vi]. All Plans since 1970 have incorporated tables showing the progress made towards attaining the 30 per cent target for bumiputera ownership of share capital. It is thus truly surprising that this principal goal of planning in Malaysia since the early 1970s has essentially disappeared altogether in the 11MP. A reference is made that the 30 per cent target remains unfulfilled as of now, and a claim is made that the targets will be met by 2020, but no data is included to allow for assessment or evaluation. Unlike all earlier plan documents, the 11MP does not include a table detailing the ownership of share capital. This is indeed puzzling, and raises questions about the intentions of the Najib Government.

One possible explanation could lie with an attempt by the Najib Government to skirt the controversial discussions regarding how estimates to measure share values of different communities have been prepared. The use of nominal values has been extremely controversial. The impression given however in the failure to properly include this issue of equity ownership in the 11MP is that it is no longer a priority of the Najib Government. Missing information also surrounds the important area of development expenditures.

Malaysia's Five Year Plans have consistently included detailed accounts of where money will be spent, outlining the spending priorities of the government for long-term planning. These expenditures have been tied into the broader goals of Plans, including poverty reduction and increasing incomes. While a number of projects are listed in 11MP, the relationship between these projects and the broader well-being of all Malaysians has not been laid out. A core element in planning involves a thorough and transparent accounting of public spending, sadly missed from the 11MP.

Given the billions of funds that are being pumped into the Malaysian economy, as the Najib Government has outlined over RM 400 billion in expenditure while in office, the tie between spending and broader planning goals is a serious omission.

Raising questions, losing confidence

The 11MP stands out in how information is presented and not presented – the arbitrariness of numbers, concerns with distorted realities, lack of detail in assumptions and methodologies, distracting new concepts that further move away from international standards and major gaps in information and analysis that allow for the emergence of constructive and conducive policy platforms to address the country's policy challenges, from poverty to raising incomes.

All previous Plans and Mid-Term Reviews have gone beyond outlining aspirational targets and seriously attempted to lay out policy reforms tailored to the targets. The current Plan has deviated from this approach; it has failed to outline meaningful measures that are needed to remove the constraints that are holding the country back, entrapped as a middle income country.

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vi Terence Gomez also made this point in his "Where are 11MP equity distribution figures," Malaysiakini, 1 June, 2015 https://www.malaysiakini.com/news/300330 and makes the broader point that the 11MP leaves out affirmative action initiatives. See his 'Where's 11MP 'market-friendly affirmative action?' Malaysiakini, 12 June, 2015, https://www.malaysiakini.com/news/301602

It appears that Najib Government is not genuinely interested in planning, or does not have the capacity to effectively formulate policies for Malaysia's development.

In the 11MP the Najib Government has missed an important opportunity to genuinely move the country forward, to build faith in the current leadership and to show that the premier has a plan to strengthen Malaysia. Rather than inspire confidence, the 11MP raises questions about how the touted targets will be achieved and whether Malaysians, especially poorer citizens, will get the governance they need.

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