

# A-LIST POINT OF VIEW



## Economic Outlook and Policy Direction in Malaysia



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### Background

On Tuesday, 30 April 2019, Dr. Muhammed Abdul Khalid, Economic Adviser in the Malaysian Prime Minister's Office discussed Malaysia's economic outlook and the planned policy direction of the Pakatan Harapan (PH) government, one year after it assumed office in May 2018. Before becoming Economic Adviser, Dr. Muhammed led the secretariat of the Council of Eminent Persons', an advisory body that was set up to provide advice on economic and financial matters. He also served as Director of Research at Malaysia's sovereign wealth fund Khazanah.

### Key Takeaways

- While Malaysia's economic growth in 2018 was lower than in 2017 due to political shifts and

institutional reforms, its growth rate still remained one of the highest in the region.

- The government is optimistic that ongoing reforms and planned incentives for businesses will foster sustainable and inclusive growth.
- Reforms are expected to strengthen independent institutions, curtail corruption and the culture of subsidies, improve the business environment, strengthen the education system, and promote social inclusivity in Malaysia.
- Malaysia's political situation remains stable and continuity of policy priorities is expected.
- Progressive government reforms might be tempered due to PH's focus on securing their support base after recent racial rhetoric from the opposition.

### Strengthening Institutions to Curtail Corruption

The PH government has implemented institutional reforms aimed at reducing corruption, through curtailing executive powers, strengthening judicial and legislative independence, and promoting greater transparency. The Election Commission and the appointment of the Malaysia Anti-Corruption Commission (MACC) Chief will now fall under the purview of Parliament rather than just the Prime Minister, to prevent a conflict of interest. Similarly, the State Prosecutor's office will be separated from the office of the Attorney- General.

Ministers are now also required to declare their assets through a publicly-accessible online system, and politicians are not allowed to sit on the board of any government-linked company (GLC). The government has also reviewed all project contracts and terminated those suspected of cronyism. It has also put in place a policy to prevent businesses from gaining unfair advantages by leveraging relationships with Ministers.

As companies had to adjust to the multiple reforms market disruption caused Malaysia's economic growth to slow down from 5.9% in 2017 to 4.7% in 2018. However, Dr. Muhammed was confident that this slowdown would be temporary, and that new incentives and reforms to eliminate corruption would foster sustainable and inclusive economic growth from 2019 onwards.

## Improved Public-Private Engagement

Dr. Muhammed shared that private companies could look forward to a more level playing field and speedier public-private sector engagement. The government also implemented a “three meetings” policy, which aims at identifying and resolving issues within three meetings.

Companies can also look forward to new incentive structures that would reduce corporate taxes, and opportunities specifically in the areas of manufacturing, chemical, aerospace, tourism, and medical devices. Incentives are estimated to reduce taxes from 24% to around 16-18%, while companies with pioneer status will benefit from an even lower tax at 7%. A new sugar tax will be introduced in 2019, levied at MYR0.40/liter, although there are plans to introduce a carbon tax in the distant future.



## Trade Agreements

While Malaysia signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the government is in no rush to ratify it, as it is studying how to mitigate the CPTPP’s impacts on Malaysia’s less-developed regions. Malaysia also plans to sign the Regional Comprehensive Economic Partnership (RCEP) and is negotiating other bilateral trade agreements.

## Education Reforms

Dr. Muhammed spoke on key education reforms the government has in the pipelines. First, the government wanted to improve inclusivity and ensure that all students receive quality education. Second, the government planned to strengthen national schools by improving the current curriculum. The government also

had plans to uplift poorer students through a scholarship program. Third, the government earmarked the proceeds of the sugar tax to implement a healthy breakfast program for all students to address the problem of rampant malnutrition among Malaysian students.

## Q&A Discussion

Audience members asked Dr. Muhammed about a proposed carbon tax and the possible partial privatization of GLCs. Dr. Muhammed indicated that the government was in “no rush” to implement both, as further research and planning were necessary.

Dr. Muhammed also responded to questions on opposition grievances and Malaysia’s democratic prospects. He shared while that the Cabinet recently agreed to form a “media team” to combat opposition’s propaganda, the government does not plan to control the media as had been done in the past, and would continue to uphold freedom of speech. He pointed out unlike the opposition; the government did not own any newspapers.

Dr. Muhammed also provided clarifications on the health science industry in Malaysia. He reassured audience members that halal certification of healthcare equipment was not mandatory, and informed them of the government’s plans to hold meetings with healthcare companies in the near future to allay any of their concerns.

## A-List’s Outlook

With a strong opposition and recent by-elections indicating divided support for the PH government, we expect economic reform efforts could be delayed while the government prioritizes solidifying their voters’ base. High profile issues such as the hiring of non-Malays as the Attorney General and Chief Justice, as well as the contested ratification of the Rome Statute have portrayed the cabinet as discriminatory against the Malay majority. The government is thus likely to proceed more cautiously the short to medium term while it attempts to balance and improve its public perception across the electorate.