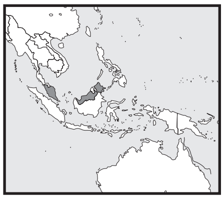
A gloomy outlook



Malaysia, which relies heavily on exports for economic growth and imports most of its food, will have to brace for years of economic difficulties. There is a sharp fall in industrial production, the unemployment rate is soaring and analysts warn that the coming recession could be worse than that of 1997. The Government has been criticized for acting too late and for focusing on bailing out companies. Civil society organizations are holding protests and public fora to raise public awareness of the negative impacts of these crises, especially to the vulnerable groups in society.

Third World Network
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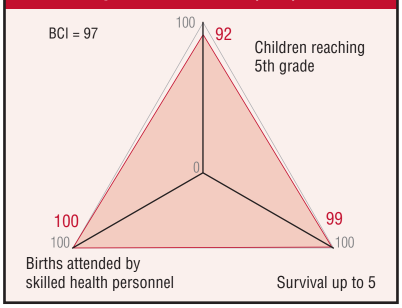
Like many countries, Malaysia was not spared from the effects of the global financial, economic, energy and food crises that swept most parts of the world in 2008 and that continue to do so now. These developments, coupled with the drastic changes in the Malaysian political landscape following the unexpected results of the national elections in March 2008, dominated the attention of all Malaysians as they grapple with the effects. With a new Prime Minister in office and the country entering into an era of economic uncertainties, many Malaysians ponder their future.

Riding on the economic slowdown

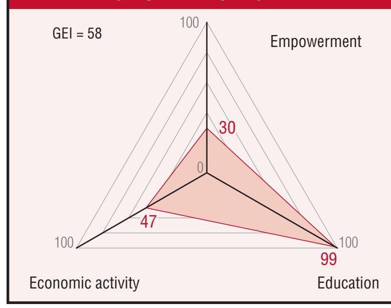
For much of the year, Malaysia was in denial of the possibility that the country could be negatively affected by the financial and economic turbulence that was rocking much of the world, even though country after country, including its neighbour Singapore, were declaring that recession had hit their shores. Malaysian leaders maintained that the country's fundamentals were strong and therefore there was no need to take action. This may have been true at the early stages of the financial crisis – which began in the US and Europe in 2007 and worsened in the first half of 2008 with as yet little effect on Malaysia. But when the financial crisis began to affect the Western countries' real economy of production and incomes in the second part of 2008, this was increasingly transmitted to Malaysia towards the end of the year. This prompted many to believe that the USD 2 billion stimulus package unveiled by the Government in November, most of which has yet to be spent, may be too little too late. (Out of the USD 1.8 billion that has been channeled out, only USD 400 million worth of projects have been implemented).

According to official statistics the recessionary conditions that affected Western countries seriously hit countries like Malaysia in the last months of 2008. The falls in key figures have been surprisingly steep, showing that the Malaysian economy started stalling, and then falling, in the last three to four months of last year and into the first few months of 2009. The economy contracted a faster-than-expected 6.2% year-on-year in the first quarter, prompting the Government to steeply cut its forecast to a 4%-5% contraction for this year.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



The outlook does not look too good, with a recession likely to happen sooner than later. Besides revising its global projection to below 0% this year, the IMF has termed the present crisis as the "great recession" and "the worst performance in most of our lifetimes." As recovery in the US economy is expected to take place only in 2011 or 2012, export-dependent countries like Malaysia will have to brace themselves for three to four years of economic difficulties.

There is no doubt that the downturn was caused by the global crisis, since Malaysia is one of Asia's most open economies in terms of trade, with exports accounting for over 90% of GDP in 2007, compared with 14% for India, 16% for Japan, 36% for China and around 60% for Thailand and Taiwan. Only Singapore (186%) and Hong Kong (166%) exceed Malaysia's export-to-GDP ratio.

The toll exerted by the economic slowdowns of its major trading partners is seen in the drastic drop in external demand. Although Malaysia's exports are well diversified with many commodities plus manufactures, the problem is that almost all export items are affected at the same time. Gross exports fell 18% in the last quarter of 2008 over the previous quarter, with the most worrying fall seen in manufacturing exports, especially electronics, electrical machinery and appliances, which make up the bulk of overall manufacturing exports or about 35%-40% of total exports. Commodities, which experienced a good run earlier in the year before the price bubble burst, were also not spared as exports in petroleum, palm oil and rubber fell in the same period. As such, the export engines of growth are stalled or in reverse gear. Another sign of bad times is the consistent sharp fall in industrial production since July 2008; the latest available figure shows that in January 2009 production fell 20% compared to a year ago.

Unemployment

With the slowdown in international trade, the jobs outlook is increasingly bearish. Malaysia's unemployment rate in 2009 is expected to reach 4.5% compared to 3.8% in 2008. About 33,000 jobs were lost in 2008, the bulk of which in the last few months of the year as the global crisis took a turn for the worse as Asia's key export markets slipped into recession. Of the nearly 26,000 jobs lost since October 2008, 85% were in the manufacturing sector with the electronics and electrical industries particularly hard hit. Exports in this sector fell by 34% in January 2009 from a year ago. The most severe projection comes from the Malaysian Employers' Federation. It projects the number of job losses to peak at 200,000, far surpassing the 85,000 jobs lost during the financial crisis in 1997/98.

This negative trend has not escaped the radar of analysts such as the Swiss investment bank Credit Suisse which said that Malaysia's downside risks are "the highest in Asia, after Hong Kong and Singapore, especially given the big drop in commodity prices." These events have prompted some to suggest that it is imperative that the country reevaluate its industrial and export-oriented policies if not its entire economic makeup. There is a strong sentiment that the country should seriously reduce its dependency on exports and harness the domestic market for growth.

Recognizing the severity of the crisis, the Government in March 2009 announced a second and larger stimulus package to be distributed over the next two years in an effort to stall the slowdown and prevent the country slipping into a serious recession, which if not addressed will have serious repercussions on social and political stability. The USD 17 billion plan will allocate money for fiscal injection, guarantee funds and other assistance for industry, equity investments and tax incentives. The four main goals of the package are to protect and create jobs, ease the burden of the crisis on the population, assist the private sector and build capacity for the future.

With the growing job losses and expectation of more lay-offs to come, the Government has begun to review its policy on foreign workers who have been a major lifeline in many sectors. Worried about the steady rate of retrenchment, it announced that employers who wish to downsize their workforce should lay off foreign workers first before they retrench locals.

Malaysia — one of Asia's largest importers of labour — has an estimated 2 million foreign workers (predominantly from neighbouring Indonesia – 66%–followed by Nepal and India) who are the mainstay of the plantation and manufacturing sectors. But now with unemployment mounting the government has banned the hiring of new foreign workers in the manufacturing and services sectors. It has reportedly slashed its work permit approvals by over 70% this year. It has also approved a proposal to double the foreign workers' levy imposed on employers to discourage the hiring of foreign workers.

However, activists worry that employers could pass down these higher charges to their foreign workers to absorb, further burdening the latter who are already saddled with hefty agent fees. Instead, it was proposed by some that minimum wages be imposed to curb the intake of foreign workers as employers tend to turn to foreigners because they are cheaper to hire than locals, often receiving wages below the poverty line.

The stimulus package and its uncertain outcome

While there are some medium to longer term measures committed in the Government's mini-budget, some observers noticed a lack of initiatives to deal with the immediate and urgent need to stall the continued economic decline, stimulate demand and raise business activities, considered critical in any crisis-driven "stimulus budget". Instead, it was criticized for focusing on what appeared to be the bailing out of companies, given that nearly half of the money will go to assisting the private sector. In comparison, only 17% was budgeted towards easing the burden of the people, the majority of whom are suffering from high costs of living. There was also concern that the specific needs of women, with the exception of single mothers, during the economic crisis have been overlooked, as only 1.4% was allocated for the less fortunate.

The success of the stimulus package will depend on the execution, implementation and transparency in the disbursement of the stimulus funds. This will determine if the trickle-down and multiplier effect of the package is felt across a large section of the population and that it will not only benefit the well-connected companies and individuals as often happened before.

In responding to calls for transparency and accountability, the Government said it will launch a special website to monitor how funds under the government's two economic stimulus packages are spent. The website will provide information to the public on the allocations and the amount spent, the programmes and projects that are implemented and their progress. Such an initiative is relatively new and a reflection of the need to respond to growing pressure for greater public accountability in a government that is often viewed as mired in corruption and political patronage. But as with all government policies, their implementation remains to be seen.

An unknown scenario

Despite the gloomy outlook, economists often point to Malaysia's strong economic fundamentals and its experience from the previous Asian financial crisis in 1997 which they believe will allow it to weather the current crisis. But the nature of the present global crisis is still unfolding and no one really knows how deep and how long the crisis will play out. While the banking sector is still resilient for now, it will eventually be affected as businesses face difficulties in repaying loans. And while non-performing loans may be manageable now, this may not continue, as some analysts warn that the coming recession could be worse than that sparked by the 1997 Asian crisis.

There are fears of social problems caused by unemployment, including a higher crime rate coupled with the deterioration of poverty values and greater income inequality as many low- and middle-income workers lose jobs in manufacturing. With the experience of the recession of the mid to late 1980s in mind, there has been a proposal for a comprehensive social security plan. Increasingly, calls are being heard for a national retrenchment fund to protect workers in anticipation of possible job losses which the Government has said it is considering.

Food crisis and food insecurity

While high commodities prices brought benefits to some, simultaneous high food prices were a bane to most Malaysians already struggling with the high cost of food and other basic necessities brought on by the sharp increases in oil prices in 2008. While inflation has dropped in the past few months as the agricultural commodity bubble burst and oil prices fall from their peaks, food prices remain high with the consumer price index showing a sharp 9.2% rise in February 2009 for food. (The food and non-alcoholic beverages component contributes close to 80% of the 3.8% rise in the overall CPI in February 2009.) Significant increases were seen for rice, bread and other cereals whose indices have shot up by a whopping 18 per cent. Oil prices, though has been cut a few times over the last few months of 2008 in line with the drop in global oil prices, were still higher than the pre-crisis levels.

Much of the increase in food prices is also due to the fact that Malaysia is a major food importer and therefore is vulnerable to rising prices and speculation in food prices. Rapid development in the past few decades has shifted the focus of economic planning towards industrialization and industrial agriculture at the expense of food production as it became cheaper to buy food from other countries. Apart from rice, Malaysia also imports vegetables, fruits, meat, and grains.

Malaysia is currently about 60% self-sufficient in rice and the Government plans to inject about USD 2 billion to increase rice production to once again reach the 90% self-sufficiency level. The Food Security Policy was launched in April 2008 and subsidies and incentives have been paid out with the hope to boost rice production nation-wide. Simultaneously, the *Bumi Hijau* (green earth) campaign, an initiative similar to that introduced in the 1970s, was to encourage Malaysians to grow vegetables and other edible greens apart from rearing chicken and fish for their own consumption.

Despite these initiatives, there needs to be more effective long-term planning for economic recovery. The Government needs to give serious consideration to different aspects of the problem, including more efficient use of land, labour and technology, that may hamper the achievement of the targetted goals.

Civil society responses

A series of protests and activities including public forums were held by various civil society organizations and NGOs to raise public awareness of the negative impacts of these crises— especially to the vulnerable groups in society.

The Oppressed People's Network (JERIT; the acronym means "scream"), a coalition of civil society groups, has been particularly active in organizing various activities to highlight their concerns and present their demands. They held a protest against the oil price hike in January 2008 and ended the year with the "The People: The Force of Change" bicycle campaign to express their concern for workers' rights and the hardships being faced by ordinary, working class Malaysians as the economy faces a slowdown.

The bicycle campaign saw groups of cyclists flagged off from three main locations in the north, south and east coast of Peninsular Malaysia and they pedaled simultaneously towards the Parliament building in the capital city of Kuala Lumpur to present a memorandum to the Government and opposition party, highlighting their concerns and demands.

Their main demands include the introduction of a minimum wage, decent housing, price controls for essential goods and an end to the privatization of essential services. They also linked this to broader civil and political rights including the restoration of local government election and the repeal of the Internal Security Act, which allows indefinite detention without trial.

Along the way, they distributed leaflets to the public and presented the memorandum to the chief ministers of the various states (Malaysia has a federal system of government). Despite numerous obstacles placed by the police including arrests, they managed to make their way to their final destination. And during those two weeks in December 2008, the campaign received much publicity and public support along the routes they traveled on. ■