

Economics Watch: Will the new council have teeth?

Written by Anna Taing

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So, we now have the Economic Advisory Council tasked with the critical role of helping to chart Malaysia's new economic direction, going forward.

Given that the Ninth Malaysia Plan (9MP) will soon come to an end in 2010, and the lessons that are being driven home by the current economic crisis, a new growth model should be developed as quickly as possible. This new model must help position the economy beyond the recovery and the next growth cycle to ensure sustainable and equitable development in the long term.

One of the functions of the council is to provide advice and input on what form this new economic model, which will form the backbone of the Tenth Malaysia Plan (10MP), will take.

If we go down memory lane, we don't have to walk very far to remember the setting up of the 10-man International Advisory Panel in 2005, comprising experts from all over the world, to determine the future economic strategies as Malaysia entered the second phase of Vision 2020.

Yet today, the economy is still trying to transform, to move to a higher value-add chain while the transition from a middle- to higher-income country remains a struggle.

The 9MP will come to an end next year, and it is doubtful that many of its objectives have been achieved. The 10MP will likely contain the same spiel, given the recent rhetoric that the new model will focus on knowledge, skills and creativity.

And prior to the formation of the Economic Advisory Council, we had the Economic Council (EC) that comprised some 40 members.

The EC, according to some of its members, did not work very well because a lot of time was "wasted" during the meetings to allow everyone to voice their views. It was just not focused enough, and did not have much of an impact.

Thus, the new council comprising a chairman and no more than a dozen members, seems to be a better proposition. But let us also learn from history that any council is only as good as its members, and it serves a purpose only if the advice and suggestions (these must be good, of course) are heeded.

In this regard, the task before Tan Sri Amirsham A Aziz, the newly-appointed chairman of the Economic Advisory Council with ministerial status, is not a small one.

Unlike the National Economic Action Council (NEAC), a consultative agency that was set up in 1998 to combat the effects of the Asian financial crisis, the Economic Advisory Council will have to think even longer term, against a backdrop of a very fast changing global environment.

With the NEAC, speed was of the essence, which was why it came up with the National Economic Recovery Plan (NERP) within six months of it being set up. The NERP proposed

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fiscal stimulus plans and debt restructuring vehicles like Pengurusan Danaharta Nasional Bhd. Of course, the strategies contained in NERP were not all short term, given that the 1997-98 crisis had also exposed the structural weaknesses of the domestic economy.

This time around, though, recovery will take longer. The months ahead will be challenging ones. For one, the immediate issues that must be addressed include reining in the fiscal deficit, which is in danger of ballooning further because of the recession. Malaysia's GDP is expected to contract by some 5% this year. When the government projected a fiscal deficit of 7.6% this year, it was premised on a contraction of 1%.

The economic turmoil is far from over yet. Indeed, there is a view that we are now only in the second phase of a three-stage global economic turmoil.

The first phase was the financial crisis that started in 2006 and which has evolved to impact the real economy and created the current recession. The third phase may be round the corner because as recovery begins, the global economy will have to grapple with the fallout of the massive pump-priming measures undertaken by governments across the world, and these include the quantitative easing exercises that had helped increase liquidity in the banking system.

In this regard, the world may have to deal with, among other things, rising inflation and a weakening US dollar.

The recession that is even now roiling the global economy is telling us that we can no longer rely on exports as a key growth engine. And if domestic demand is to take over, then there is a need for a major revamp of the domestic economy.

And this is where the Economic Advisory Council comes in. While its role is advisory, a question remains on how it will work with the Economic Planning Unit (EPU) in the Prime Minister's Department.

Logically, the two will have to work very closely together because the EPU traditionally has been responsible for crafting economic development blueprints for this country that will bring about, among other things, greater resilience, better quality of life, optimum utilisation of resources and more equitable distribution of income.

Most important, if Malaysia is to successfully adopt a new growth model, many things must change — meritocracy, governance, transparency and accountability must form the cornerstones of this new economic model if it is to take off.

History has demonstrated that we can have the best blueprints in the world, but they are useless if there is no political will to push them through. Policies that are antiquated and irrelevant to the changing times must either be fine-tuned, or done away with.

There will be resistance from many quarters to many of the radical changes that must take place, but we only have to look at what other countries are doing to cope with the new global

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environment to know that if the powers-that-be gives in to the selfish short-term interests of certain groups, then everybody loses.

So, will the new council have teeth?

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