

Special Report

What can we expect from the 9th Malaysia Plan?

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WHAT CAN WE EXPECT FROM THE NINTH MALAYSIA PLAN?

There are only another 15 years before Malaysia is supposed to achieve its target of becoming a “developed nation” in 2020, which is why the next 15-year phase of national development would be very crucial. The Ninth Malaysia Plan (“9MP”) will cover the first 5 years of this 15-year period and it is thus very critical the country’s economic planners get it right from the beginning. This is because the 9MP will set the direction and the foundation for the first trimester.

There is no doubt that the period covered under the 9MP would be very challenging and difficult, especially with the uncertain global political and economic scenario, a more difficult operating environment, globalization and liberalization, as well as increased competition from countries such as China, India and Vietnam. Clearly, Malaysia needs a 5-Year Plan that is different from the previous plans and that contains some radical or “out of the box” strategies.

To be sure, the first glimpse of what is in store in the 9MP can already be gleaned from the Prime Minister’s 2006 Budget Speech (on 30 Sep 05), where he outlined certain strategies. To recap, the 2006 Budget strategies were:

1. Implementing proactive government measures to accelerate economic activities
 - a. accelerating rural development
 - b. improving further the government’s delivery system
2. Providing a business-friendly environment
 - a. developing new sources of growth,
 - b. modernizing the agriculture sector,
 - c. developing the biotechnology sector
 - d. intensifying the ICT sector
 - e. encouraging research and development
 - f. strengthening small and medium-enterprises (SME), and
 - g. enhancing Bumiputera participation in the property sector
3. Developing human capital, and
4. Enhancing the well-being and quality of life of Malaysians
 - a. eradicating poverty
 - b. providing comfortable homes
 - c. improving public transportation in the Klang Valley
 - d. diversifying energy sources, and
 - e. regional development.

We expect much of the above to be repeated and re-emphasized in the 9MP. Having said that, and judging from comments made in the press by ministers (who have had a sneak preview of the 9MP at the Cabinet meeting on 1 Mar) and politicians as well as our own assessment of the economic realities and challenges facing Malaysia, we think the key policy objectives of the 9MP would be as follows:

I. Accelerate Economic Activities

Firstly, the 9MP is likely to continue with its focus on the following 3 key economic sectors but this time with an emphasis on increasing the productivity, competitiveness and value-add of these activities as well as on making headways into new sub-sectors. The 3 key economic sectors are:

1. Manufacturing
2. Services (eco-tourism, MICE, regional center of excellence for tertiary education, regional health tourism center, international center for Islamic banking and finance, aviation maintenance and business & professional outsourcing (BPO)).
3. Agriculture (aquaculture, deep-sea fishing, ornamental fish, herbs, floriculture, global center for *halal* products).

On the services sector, there is a need to expand the sector to beyond its current concentration in the Klang Valley to, for example, the south, hence the rumored Southern Corridor in Johor (as mentioned by *The Edge* in its 6 Mar issue).

II. Modernizing The Agriculture Sector

The agriculture sector has always been the “blue-eyed boy” of the Prime Minister. He had emphasized time and again on how the agriculture sector should become a more dynamic sector. Given this, the agriculture sector is likely to see its importance “elevated” to become the 3rd pillar of our economic growth (after manufacturing and services).

But the Prime Minister’s emphasis on the agriculture sector is not about planting more rice fields or rubber trees or oil palm trees. Instead, the focus would be on re-orienting the sector towards more modern, higher value-added and commercial-scale production. New zones in the North and East Malaysia has the potential to be developed into modern commercial-scale agriculture and agro-based regions.

III. Encouraging More Domestic Investment And Strengthening SMEs

The Plan is also likely to focus on making the private sector take the lead role in spearheading economic development or growth. This would likely include initiatives to enhance SME development as well as increasing the number and level of public-private sector partnerships, such as those between the private sector and Khazanah Nasional. The establishment of SME Bank in 2005 represents the first major step towards providing access to financing for SMEs.

It is also possible that growth corridors (such as the Southern Corridor mentioned by *The Edge*) could be developed jointly by the government and the private sector to promote investments. However, new projects, if any, will be on a needs basis.

At this juncture, it is important to stress the market’s wish for the Prime Minister to carry out its pledge of awarding concessions and contracts through an open bidding process.

However, one question that is sure to crop up is: “How is the government going to finance these new projects?” We think the government will come up with some innovative methods such as a private financing initiative where the project may be government-initiated and the feasibility studies and design costs funded by the government but where the costs of funding the construction, operations and maintenance of the infrastructure or utility is financed by the private sector.

IV. Enhancing Efforts To Develop A Knowledge-Based Economy

Much has also been said about the need to develop the country's human capital and our education system. Not least of all is the issue with the un-employability of local graduates and the "low appeal" of the national schools to non-Malays.

The fact that national schools are no longer the preferred schools for non-Malays is a matter for concern as it could affect national integration. The perception that teachers in national schools are generally weak, the emphasis on religious practices by some schools or teachers in national schools and the perceived practice of discrimination against non-Malays in national schools are amongst some of the reasons cited by parents who send their children to national-type schools.

We thus expect the transformation of the nation into a knowledge-based economy to be one of the key objectives of the 9MP. Making national schools the preferred school should be made a priority.

And recognizing that knowledge, innovation and values will be the key determinants of Malaysia's future success as a knowledge-based economy, we expect the government to, among other things, introduce programs and projects to improve the quality of the national education system at all levels, from pre-school to tertiary.

These may include revamping the teaching curriculum, introduction of new courses to be in line with the changing requirements of the labor market and employers as well as introducing internship programs for local undergraduates. The creation of world-class universities (at least two of them) would also be on the agenda.

Lastly, the government should provide an environment and innovation system which encourages top-quality research and development (R&D) and its commercialization.

V. Restructuring of Society

As with the previous plans, we believe the government would strive to address the persistent socio-economic inequalities among the 3 major races in Malaysia, and hopefully, it does so in a constructive and productive way. The rationale for this is simple enough to understand: if the inequalities are allowed to persist, it can negatively impact growth, threaten national unity and affect societal stability.

That said, we think the government should take a leaf from previous experiences and ensure that past mistakes are not repeated. One of the main criticisms of the existing measures to address the imbalances is that the privileges offered to Bumiputeras often benefit only a very small group of Bumiputeras, while the rest of the Bumiputeras continue to lag behind the non-Bumiputeras in terms of average income. Efforts must thus be focused on reaching the right target groups and by providing sufficient opportunities for advancement and capacity-building.

VI. Enhancing Bumiputera Participation in the Economy and Property Sector

In this regard, we expect there to be more initiatives and programs to assist the Bumiputeras under the 9MP to ensure greater Bumiputera participation in the economy. Existing initiatives to promote Bumiputera entrepreneurship such as the franchise and vendor development programs (such as those by Petronas and Proton) will likely stay and strengthened further.

Recall that one of the proposals under the 2006 Budget was for the establishment of a Bumiputera property trust foundation, Yayasan Amanah Hartanah Bumiputera, to enhance Bumiputera property ownership in urban areas.

VII. Regional Development

But apart from income and wealth disparity between the Bumiputeras and non-Bumiputeras, there are also disparities between rural and urban areas as well as between less developed and more developed regions that the government will need to address in the 9MP. In this regard, we expect the government to increase its allocation for rural development and for comprehensive development of the less developed states, such as Perlis, Kedah, Sabah and Sarawak.

VIII. Enhancing the Well-Being and Quality of Life of Malaysians

Providing Comfortable Homes

We think the 9MP will also focus on improving the standards and sustainability of our quality of life. Among other things, this would include the provision of low-cost houses via the Program Perumahan Rakyat with the Syarikat Perumahan Negara Bhd ("SPNB") playing a complementary role.

There could also be initiatives to encourage the private sector to provide low-cost houses, such as allowing more flexibility on the quota of low-cost houses as well as expediting the development and approval process.

[Recall that in the 2006 Budget proposals, property developers were allowed to set-off estimated losses from low cost housing projects against the estimated profits of other property development projects in the preparation of estimates of tax payable for the current year, effective from year of assessment 2006. That said, this proposal does nothing more than just improve the property developer's cash flow in the short-term. It does not mean their tax liabilities are reduced].

Any effort to improve the quality of life would never be complete without initiatives to improve healthcare services, the transportation system as well as the water delivery system. Therefore, we expect there to be significant allocations in the 9MP for these three areas.

The allocations for improving the transportation system would be one that would be watched with keen interest by the man in the street. This is because the recent hike in petrol prices at the pump by almost 19% has made travel – be it by road or air – expensive for the average income earner.

Improving Public Transportation In The Klang Valley

We therefore think a lot of the emphasis will thus be on the public transport system, particularly in the Klang Valley as well as in other congested urban areas such as Georgetown in Penang and Johor Baru. Additionally, the existing rail transport system as well as certain airports in the country could also be upgraded. To date, among the major airports in the country, only the Penang, Johor Baru, Kuching, Miri and Bintulu airports have been upgraded. This leaves Kota Kinabalu as the only international airport in the country yet to be upgraded.

Improving Water Supply System

The other widely anticipated initiative would be the one relating to increasing the quality and reliability of the water supply system. This would mean water infrastructure such as intakes, treatment plants and dams would be constructed and upgraded. Long-delayed projects such as the Pahang – Selangor Inter State Raw Water Transfer project are also very likely to take off in the 9MP period.

Rehabilitation of water distribution networks (such as pipe replacements) to reduce non-revenue water (NRW) and increased coverage of water supply to rural areas will also likely be emphasized. The tabling of the Water Services Industry Bill and the National Water Services Commission Bill in the current Parliamentary session will result in the creation of Syarikat Pengurusan Air Negara (“SPAN”) to regulate the water supply system and sewerage services in Peninsular Malaysia.

IX. Improving Further The Government’s Delivery System

All the above plans and initiatives would count for naught if they are not implemented properly or simply not implemented at all by the district and local councils. The quality of public services in the country thus needs to be improved. The government needs to reduce bureaucratic red tape, especially at the local and district levels, and decision-making needs to be more effective and speedier.

The recent establishment of the Biro Pengaduan Awam is meant to actively manage feedback and complaints from the public on public service delivery performance.

FEDERAL GOVERNMENT DEVELOPMENT ALLOCATION

Given all the above objectives and initiatives of the 9MP, we can safely conclude that the federal government development allocation for the 9th Malaysia Plan period (2006 - 2010) would be significantly larger than the allocation or actual expenditure under the 8th Malaysia Plan.

In fact, we think a development allocation of up to RM200bn would not be too far-fetched to expect for the 9MP, given the objectives and challenges ahead.

Of these, the education, transport and utilities sectors are expected to receive the lion’s share of the development allocation.

PUBLIC VIEWS AND EXPECTATIONS

Although the 9MP has not been released yet, the public has already held a few forums to discuss their expectations and to air their views or wishes. Among them are issues such as new growth drivers or areas, the National Economic Policy (“NEP”) and its relevance, the meritocracy system (or rather the lack of it), education and foreign direct investments (FDI). In the next few paragraphs, we give our own understanding of how the government is likely to address these issues in the 9MP.

New Sources of Growth

We think the government will focus on technology- and knowledge-intensive sectors as the new areas of growth for the Malaysian economy. An example would be to continue to position Malaysia as a preferred destination for outsourcing and shared services.

Another area would be to develop the country’s biotechnology industry, in line with the National Biotechnology Policy launched in 2005. Malaysia could focus on areas in which it has competitive advantage, given its rich biodiversity and multi-ethnic population (the latter is useful for health discoveries and testing). Malaysia could also aim to become a world leader in resource-based industries such as biofuel and biodiesel.

The Bumiputera Agenda

We have discussed this under sections V and VI above (“Restructuring of Society” and “Enhancing Bumiputera Participation in the Economy and Property Sector”).

Education

We have discussed this under section “IV. Enhancing Effortsto Develop A Knowledge-Based Economy” above.

Foreign Direct Investments

We expect the government to give emphasis on the application of high-technology and production of higher value-added products under the 9MP, such as measures to migrate the electrical and electronics industry towards high-technology value-added activities. The development of other higher value-added manufacturing sub-sectors such as the petrochemical, maritime, aerospace, heavy machinery and defense industries are also expected to be promoted.

CONCLUSION

Having said all of the above, it is important to remember that the 9MP is a long-term 5-year plan and that the public or the market should not expect miracles overnight. Many of the deliverables under the 9MP may take at least 1 - 2 years before we could see tangible results.

SECTORS AND STOCKS THAT COULD BENEFIT FROM THE 9MP

POTENTIAL BENEFICIARIES OF 9TH MALAYSIA PLAN

Construction Stocks	Bumi Contractors	Sarawak Plays	Johor Plays
Gamuda	AZRB	Cahaya Mata Sarawak	MMC Corporation
IJM Corporation	MRCB	Hock Seng Lee	Ranhill
Road Builder	MTD Capital	Naim Cendera	Tronoh
	PECD	Sarawak Concrete Industries	UEM World
	TRC Synergy	Weida	
	TSR Capital	Zecon	
Water Plays	Building Materials	Agro-based / Aquaculture	BioDiesel Plays
Engtex Group	ACPI	Bernas	Golden Hope
George Kent	Aluminium Company	Xian Leng	IOI Corporation
Hiap Teck Venture	CIMA		Kulim
Jaks Resources	Lafarge MCement		
Puncak Niaga	Tasek		
YLI	Tong Herr		
	YTL Cement		