Dr. Wan Mohd Hasni
23 April 2023 - First Draft

The Future State of the Malaysian Economy

Ideations for the way forward

The Malaysian economy had progressed through various phases since seventy years since our independence from the British. From the early days, we inherited an economy which were in many ways built by the colonial, through which we also earn our geographic boundaries as well as the constitution and various English laws which were adapted to the local environment. The economic and financial system are based on the systems that were developed prior to the independence.

For roughly the first twenty years (1957-1977) can be considered as the formative period for the Malaysian economy, whereby the focus of development were on basic needs and requirements of the country - which saw the formation of resource exploitation and management (mining, plantations, etc.), infrastructure (roads, schools, healthcare, utilities, etc.), institutions (banking, education, agencies, etc.), and human capacity (labor, skills, arts and culture, etc.). This is almost the same path that other countries like Indonesia, Thailand, Singapore, Philippines, and others took. On the same note, we can also categorize South Korea, Taiwan and Hong Kong took.

The next twenty years (1978-1998) however took a rather fast pace development, whereby massive development in the industries (such as E&E sector, resource based sector, etc.) and large scale infrastructure (toll roads, telcos, power, etc.). Along with it, Malaysia transform itself as a trading nation, and grew beyond resource based economy (i.e. agriculture, mining, etc.). Capital formation and development were massive; market development were substantive; and institutions were fortified. It ended however in the Asian financial crisis of 1998, which creates a new trajectory for the economy.

Post 1998 crisis, the next ten years (1999-2009), in many ways were critical period for the formation of the economy post crisis. Malaysia impose capital control at the onset of the period which lasted for five years (through various stages of relaxation until fully uplifted) as its method in dealing with the currency crisis, in contrast with other nations facing similar issues. During the same period, global financial system "explodes" with massive creation of "money" until the sub-prime crisis hits the global banking system in 2008-2009. The crisis happened in the period whereby Malaysia was just about to fully recover from 1998 crisis. For all intent and purpose, Malaysia was "exporting itself" out of the 1998 crisis by gaining foreign currency exchange given a low Ringgit (post 1998 crisis pegging and controls). Due to its situation (and other countries in Asia and ASEAN), was saved from the global banking crisis, since its exposures to the international banking was limited (and mainly in trade as opposed to investments). One clear picture during this period is actually slowing down of growth in the industrial and production based sector, and it is slack, the growth was supplemented by the services sector.

Since then, from 2009 to 2019 (prior to Covid pandemic), the economy actually took another turn on a few major factors: first is the services sector continue to grow (such as tourism), with particular sector which was government services, whereby a clear growth of government employment, and expansion of government owned or linked companies into the market. Second is the growth in welfare economics, whereby subsidies were expanded and became a major part of the "superstructure" of the socio-economic setup of the country. These subsidies came in both forms: direct transfer of cash, and indirect form through price controls (such as power and petroleum). At the back of these, we have another element which were creeping up, as the third factor, namely the national debts, which were created in two major forms: direct debt and indirect debt through government guarantees as well as implicit guarantees. All of these happenings occurs while the engine of growth of the Malaysian economy had faltered significantly, as well as some of them had not managed to recover from the 1998 crisis.

When Covid pandemic hits globally in 2020 and lasted till 2022, and Malaysia is not excluded, the world economy was forced to almost a standstill. During this period, all major economies undertook massive monetary creation to stave off the economic effects of the pandemic, which was accomplished through debt creations. For example, the United States alone saw a 25% increased in its money base, and similar trends happened in Europe and other major economies. Malaysia, through this period saw almost similar increase in its debts by almost similar factor, which is about 25%. The effect of this phenomenon is inflation, which is raging in large economies, and Malaysia is not free from this - through the exchange rate of Ringgit vs US Dollar, as well as through the increased in energy and food prices. Now we know that the forecast of the global economic growth over the next coming years (3 years or more), is expected to be in the 2-3% per annum. This is the lowest ever growth rate that the world is expected to see in the coming years, at least in the modern history (post WWII).

Today, we can summarize that Malaysia is in the following state: we have a slowed down economic growth, in particular in the major engine of growth, we have a large size service sectors which are of "low value adding", inflation through cost of living which are not easy to control and arrest, massively subsidized socio-economic and socio-political programs, increasing conflicts in the geo-politics and geo-economy of the world post pandemic, increasing trade protectionism and blocks, and most worrying is the level of debts of the country.

IS HIGH DEBT BAD FOR MALAYSIA?

First we would like to answer whether having a large debt (now it is about 80% of the nominal GDP), is a bad thing for the Malaysian economy? We can take the examples of Japan, where its national debt is 256% of its GDP, the US is at 102% of its GDP, the UK is at 97% of its GDP (all figures are for the year 2021). All these economies breached the 100% ratio. The picture for countries which could be compared to Malaysia are as follows: Singapore (46%), South Korea (46%), Taiwan (35%), Indonesia (40%), and Thailand (60%). Clearly if we benchmarked Malaysia against large economies (such as the UK or US), the the figures looks manageable. The truth is, the structure of our economy is far from having similarities to these countries. In fact, we are much closer to Thailand and in some ways, Indonesia. Particularly, we have to look internally to our own economic structure rather than comparing to any of these countries, for that matter. This view of mine is much more related to the notion of "path dependence" of economic factors. Each country's path, even though may have some similarities, must be looked upon as its own "path", in its own ways.

Key factors that are worrying can be surmised as follows: slowing economic growth coupled with increasing (and growing) amounts of subsidies, at the back of growing (and potentially exploding) national debts. An argument can be said that these debts are domestic debts, rather than external debt. In another word, these are ringgit debts, and owed to domestic supplier of liquidity; hence it can be controlled domestically without relying on foreign entities (such as the case of Sri Lanka and Greek in recent past). We will deal with this argument later.

Key issue is: how do we reach this state of high level of debts? Not all countries path to high level of debts are the same. In fact it is almost unique to each country, and we have to see our own peculiarity in how we get here. Furthermore, once we reach this stage, in what conditions are the state of our economy and the people.

From Table 1 (in the Appendix), for the year 2010 to 2020, Malaysian GDP grown on average 4.3% per year, while the government revenue is growing at slower pace of 3.5%, and the government debt was growing fastest at 8.4%. The key percentage here is the deficit (in growth terms) cumulatively over the 11 years, stood at 55% (or on average 5% per year). This gave the implication that Malaysia had been in "deficit spending regime" throughout the period, and the number explode to 16% during the first year of Covid in 2020 as the economy went to almost a standstill. The two major drains on the government budgets are (as a percentage of the revenues) : debt services (interest plus principal repayments) and cash subsidies (excluding indirect subsidies).

If we take the yearly government deficit and the debt services plus subsidies into accounts, the causation are obvious: debt increases over the years are due to the government funding its expansionary budgets year-on-year through accumulation of debts and refinancing its debts over the years through more issuance of debts. The question is, is there any natural limits to this debt growth, assuming that the same rate of growth is maintained? Is it sustainable for the next decades if the same trend is perpetuated? Debt accumulations Will we reach the stage of debt meltdown, as it normally occurs on high debt scenarios? The bigger question is, if the economic growth forecasted for the next foreseeable future is a global slowdown (to 2.6% in 2023 to 2024, IMF forecast) that may last for a few years, are we able to turnaround the persistent trend of the last decade of debt growth, caused by exploding debts and subsidies?

Under the "old world" economic regimes, economist (mainly Keynesian) argued that there is a "natural limit" to debt accumulation of a country, before it starts to negatively impact the economic growth. Some says that the limit for advanced countries is at about 90% to 100% GDP (as argued by Krugman). However, our argument is for smaller economies like Malaysia, with the causation being altogether different from these large economies, the natural limit could be much lower, as much as 60% of the GDP (which Malaysia had breached). The bigger worry is the "runaway" growth of debt which will implode anytime sooner rather than later, especially at the back of global economic slowdown and spiraling inflation.

STATE OF THE CORPORATE SECTOR AND THE HOUSEHOLDS DEBTS

The growth of the corporate debts in Malaysia had been on steady trends since 2010 (see Table 2 in Appendix), which had been a very good sign (with an average of 9.2%) . This is happening at the back of steady and respectable growth in corporate income (average of 11.7%). In short,, the corporate sector sector has been rather "very disciplined" . Furthermore, this is supported by the matching growth in the corporate savings (with an average of 9.1%). Since we do not have the data for the breakdown between small corporate and businesses against the larger corporations and MNCs, we cant dissect whether the issues are at par across the size of the corporations.

The situation of the household is a bit different, whereby the household debts are growing at faster rate (8.8%) than the household incomes, both in terms of the median income (5.1%) and the mean income (7.2%). Furthermore, the growth in the debts is far from matching the growth in the household savings of 6.3% (a deficit of 2.5%). In banking terms, this means that an increased dependency on banking sector credits to finance their requirements (such as consumer, automobile and house financing), and they are borrowing faster than what they saved (on aggregate). The figures for the growth in incomes (in terms of medians and means) also indicate that the lower income segment (such as the B40 and M40 categories) of the society is probably on a much worse predicament than the upper income segment (such as the T20 category). Again, since we do not have data based on the segments of the households (i.e. data categorized along the B40, M40, and T20 definition), the exact picture between these categories (in regards to debts, incomes, and savings), is hard to be discerned. However, many indicators that are available, such as the balance of savings in the EPF, indicates that the divergence between the top and the bottom is quite large and serious (as indicated by T20 owning 80% of total EPF savings, and 20% for B40 and M40 combined).

The slack of income at the back of growing indebtedness of the lower incomes (especially for the B40s and some of the M40s), with an increasing inflation (as indicated by the costs of living) for the last decade (until the Covid pandemic period), translates into the ever increasing needs and requirement for the government to subsidize and perform direct cash transfers to the households. This in turns force the government to "finance" these subsidies via increased borrowings (and hence increased debts). This is one of the cause why government debts had been ballooning over the decade.

The other contributors to the household indebtedness, namely the cost of purchasing or renting the houses. The house price index was growing at 7% per year for the years 2010 to 2015, and subside down to 2% per year for 2016 to 2020, with an average of 4.0% for the decade. The housing rental index was growing at 4.6% per year over the same period. As compared to automobile price index of an average of 2.6% over the same period, house purchases or rentals has been one major source of drain on the household finances. This is on top of the cost of electricity (despite being subsidized heavily) which grew at an average of 3.7% per year, and the food prices (which is heavily controlled) which grew at 3.5% per year.

In summary, the state of debts for the corporate sector seems to be manageable and on a slightly lower risk scale, as compared to the household debts - for which the lower and middle income segments are at a higher level of risk and vulnerabilities.

HOW DID THE GOVERNMENT ACCUMULATE DEBTS QUICKLY IN THE LAST DECADE?

This is not a straightforward subject to answer. Government budgets are not linked one-to-one between debt creation and government spending, as much as government revenue was never linked directly to the spending. Government budget is a complex process, arise out of what is called as the series of the Malaysian economic plan (Rancangan Malaysia), which then are translated into the annual budgetary process. Now we are in the 12th Malaysia Plan for 2021 to 2025 (Rancangan Malaysia kedua belas, 2021-2025).

Mega projects that are financed through debts, either direct government debts or through government guarantees. (A sample list is provided in Table 4 in the Appendix). Debts through government agencies or institutions and Government Linked Companies (GLCs) is another major source. 1MDB alone created a total of RM40 billion of debts. As example, GLCs in the energy sector had a combined debt of RM178 billion in 2018, which was more than double their total revenue. TNB has an outstanding debts of RM37 billion, Telekom Malaysia has RM12 billion debts, Axiata has RM34 billion debts, Malaysia Airlines has RM16 billion debts, Malaysia Airports has RM8.6 billion debts, MRT has RM48 billion debts, PLUS has 30.5 billion debts, and we can continue the list to make up for the RM178 billion. FELDA as another example was carrying RM10 billion debts at one stage (and its been relinquished now), Urusharta Jemaah for Tabung Haji is carrying RM20 billion guarantees by the government to Tabung Haji (depositors). Boustead is having RM5.2 billion debts. In short, both the government and government related entities has been piling debts over the last decades, or at least debts was never pared down from the beginning of the period.

And finally, during the Covid period (the year 2020 until 2022), total new debts accumulated by the government was approximately RM300 billion within a very short time. The total outstanding debt as of 2019 was RM813 billion, and recently as the Budget 2023 was presented, the total debt stood at RM1.3 trillion plus an additional RM200 billion in guarantees. Details of how Malaysia accumulates so much debt during this short period requires further analysis, which we will avoid for now.

ARE WE IN THE MIDDLE INCOME TRAP AND DEBT TRAP?

Malaysia, in some ways are in the midst of what is called as "the Middle Income Trap", where the growth over the last decades, which increased income per capita but we struggles to continue our growth and catch up with high-income countries. This phenomenon is often characterized by a slowdown in economic growth, stagnant productivity, and a lack of structural transformation in the economy. We have grown from manufacturing, construction and agricultural production to a more service economy (as described by the ratio of each sector in our GDP). Yet, our service sector, which is currently more than 50% of our GDP, consists of lower productivity segments

The middle-income trap typically occurs when a country becomes too reliant on low-wage manufacturing or resource-intensive industries and fails to upgrade its economy through innovation, technology adoption, and improvements in human capital. As a result, the country faces difficulty in moving up the value chain and competing with more advanced economies. This is shown in our average labor productivity growth of about 3% per year on average and Total Factor Productivity (TFP) growth of barely 0.5% per year on average. (Compared to Singapore of 2.7% and 1.1%, and South Korea of 3.3% and 1.4%). Particular distinction is on the Total Factor Productivity growth for Malaysia, which is far lower than these other nations.

Malaysia would be in a debt trap when we becomes excessively indebted and struggles to repay our debts, leading to a downward spiral of increasing debt, interest payments, and economic hardship. This can happen when we are unable to generate enough income or growth to pay off the interest and principal on our debts. Furthermore, we may need to borrow more money just to keep up with the debt repayments, which may lead to a cycle of increasing debt. This may results in a loss of investor confidence, a decline in economic growth, and a reduction in subsidies and government programs, which can have negative impacts on the population. If all of the above are true, then we are clearly classified as country in a debt trap problem.

However, we may caution that to reach the conclusion of these middle income and debt trap problems may still be a bit premature. However, as the indication shows, unless the trends are altered significantly, the last decade has shown that Malaysia is moving clearly in both directions.

IMPACT OF HIGH DEBTS ON THE ECONOMY AND RELIEVE METHODS

Standard economic models suggest that high levels of debt can have several negative impacts on the economy, including reduced economic growth when a large portion of a government's budget is allocated to debt repayment, it leaves less money for public investments in areas such as infrastructure, education, and healthcare. It also reduced the fiscal flexibility, currency devaluation, reduction of purchasing power and inflationary effects, crowding out of liquidity within domestic market, due to increase in government domestic debt. Crowding out will reduce capital investments, capital build up, which will show its effects in the longer run. We have seen most of these effects in the last decades in some for or the other.

Barring any outside help, the classical way to escape the debt trap is through fiscal consolidation, which involves reducing government spending and/or increasing revenues. This is politically challenging, since the societies dependencies on subsidies is structurally embedded in the Malaysian socio-political scene. Revenue growth is a fickle matter, since new taxation or changes in tax structures are hard to implement. Structural reforms can help to improve the efficiency and competitiveness of the economy, which can lead to higher growth rates and increased revenues. These reforms may include measures such as labor market liberalization, trade liberalization, and public sector reforms. This will take time and require strong political will and disciplines. And finally, the most effective method is through sustained economic growth. High levels of economic growth can help to reduce the debt burden by increasing tax revenues and reducing the relative size of the debt. Strategies to promote growth may include investment in infrastructure, education, and innovation, as well as promoting entrepreneurship and improving the business environment. One of the traditional approach for Malaysia has been to increase the Foreign Direct Investments (FDI) into the country.

However, another methods which was less utilized is via the classical debt restructuring exercise of converting debts to equity (which is the standard method in corporate restructuring). This is a different approach than "distressed debt restructuring" whereby it would involve extending the maturity of existing debt, reducing interest rates, or writing off a portion of the debt. Since Malaysian government debt is far from distressed status, probably the debt-equity conversion methods is workable. This was done in some fashion in the Japanese economy aftermath the Japan Debt trap of the 1990s, as a balance sheet restructuring (as suggested by Koo).

SCENARIOS AND IMPLICATIONS OVER THE IMMEDIATE TERM

Assuming that the economic growth for the World is slowing down over the next few years, and Malaysian economic growth will also follow the same trend, with the raging inflation in many of the advance nations, and Malaysia will not be able to insulate itself from the situation, we derive the following scenarios and implications for the immediate term. By immediate term, we meant it to be for the next five years (2023 to 2028).

From Table 3 (enclosed in the Appendix), if we proceed pretty much as indicated in the forecast, whereby the economy is growing at the phase as forecasted (average of 4.5% per year), the government keeps all its budgetary activities as "usual" or expected as "normal", then the total debts will grew in 5 years from 79% of GDP to 171% of GDP by the year 2028. Under this scenario, the government maintains all the subsidies pretty much in line with the last many years (at an average of 20% of government revenues), which is the most plausible scenario due to socio-political demands and requirements.

Under the same scenario as well, the amount of the government revenues available for development expenditure is at 25% of the amount, and the rest of the government expenditures will be financed from deficit spending. The total amount is from RM120 to RM150 billion per year over the five years period. Here we need to clarify a bit with what is defined as the development expenditures: mostly it will be in the form of maintenance and repairs of public infrastructure and facilities (many of which are aging), and much less is available for new infrastructure and facilities. Furthermore, the amount which will be available for "mega-projects" seems to be less likely to be available. Some or many of the previously planned mega projects will have to be permanently delayed or cancelled altogether.

WHAT NEEDS TO BE DONE?

First, let us addressed what are currently being done by the government. Clearly the focus by the new administration under the Unity Government is to arrest the leakages of the government budgetary system, namely through eradication of corruptions and review of budgetary allocations and implementations. Understandably, this must be the first order of the day. Secondly, a review of the subsidies implementation and methods are currently in progress. Thirdly, a review on the size of the government and its efficiencies must be in the next order (given the ballooning size of emoluments and pensions).

Leakages, misallocations, and redirections, while necessary and helpful, it will not alter much the overall trajectory of the economic growth and the growth of country's debts (as indicated in Table 3). These measures ensures better efficiencies in the deliveries and make good on the outcomes (as many budgeted projects in the past were grossly under delivered).

Subsidies, as it stood, given the state of affairs of the households as described in earlier section, will remain pretty much on the same scale year-on-year for the next five years. The major improvements needed will be on the efficiency and effectiveness of the deliveries of the subsidies through a better targeting and mechanisms. On this score, I believe that the Unity government would be able to deliver the necessary performance. This, however do not imply that the amount of the total subsidy requirements is going to diminish or reduced over time unless major improvements on the income of the household are dramatically increased. This is almost an impossibility within the forecasted slowing down of the Malaysian economy over the coming years.

As far as the size of the government, which resulted in an ever increasing emoluments and pensions - we would say that very little improvements can be done here; unless the government is willing to downsize, which is highly unpopular. Furthermore, as the civil service and government employees are retiring, while we have an extremely under-funded pension system, means that the growth in pension payments will rise dramatically over the coming years. The "low scale" salaries of the government employees is also a major part of the need for subsidies, and therefore any further cuts in the number of employees, or increase in salaries, will only offset each other. Furthermore, any downsizing of current employees will be off-set by far and large by the increase in the pension payments.

Summarizing the state of the Malaysian budgetary matters (i.e. revenue and locked in expenditures), point us into only one clear way, that is an exploding increase in the national debts over the next five years to almost 180% of the country's nominal GDP. If this scenario take place, then our earlier argument about Malaysia being stuck in "the Debt Trap" is going to be a reality. Furthermore, the argument about "the Middle Income Trap" may also become a stark reality. Unless bold moves and strategic steps are being taken now, the next five years beyond (i.e. 2028 till 2031) will be "exploding and imploding" years for the Malaysian economy. Total debt could easily reach 300% of the nominal GDP, welfare items of the budgets in forms of subsidies and pensions (and also emoluments) will be a permanent feature of the economy; Lack of investments in development via expenditures will slowdown the economy further; the state of the household income, debts, and savings are highly fragile and precarious.

What are the possible steps to be taken in order to reverse the trends and situations. One of the classical method (as it had been done for the last 30 years in Malaysia), is to get new Foreign Direct Investments (FDI) into the country. However there are a few caveats involved here: 1) FDIs are slow and takes time to materialize from the date of inception to its realization; 2) FDIs require low taxation regimes and low cost of operations (low wages, low costs of electricity, and others); 3) new FDIs must exceed old FDIs, which are either maturing or exiting; and 4) Most FDIs are targeted as export oriented and in the "classical" sectors of manufacturing and in the "old economy". Finally, we must understand that FDIs are unrelated to the national debt, which is by right, non of their affairs. It only helps in terms of our economic growth, appending any of the slacks by the government and domestic actors.

How about selling off some of the government assets to pay off the debts? For example, Khazanah is reported to have MYR119 billion of assets under management (as of 2021). Similarly there are many other assets such as the public transports (such as MRT, LRT, KTMB), highways (such as PLUS), and other notable assets which values could be in the total of MYR200 billions to 300 billions. This is not as easy as it sounds, since many of these assets, except some under Khazanah and selected assets, are non-financially viable assets. Furthermore, any sale of assets under a somewhat distressed scenario will not fetch a good value, and any fire sale would be politically unpalatable.

Again, summarizing all the points above, it seems that very little and not much can be done to improve the situation, since most options are either not viable or not do-able due to the socio-economic and socio-political conditions, as well as the overall global and local economic conditions (based on the forecast). Unless the world economy turns to be better than expected, and the Malaysian economy grows together in tandem, or other favorable conditions emerged, such as descaling of energy prices and food prices globally, currency conditions are improved, inflations and unemployments are fully under control, social unrest and political stability is maintained, and no new emergence of global financial crisis and global supply chain disruptions (as what happened during Covid pandemic), and finally there are no new global health threat (i.e. another pandemic) - then the scenario as we have forecasted may not happen, and a much improved scenario may occur. However, as the saying goes, we must plan for the worst, and hope for the better. Risk managements requires us to think and behave this way. Only fools plan on the best scenario, goes on business as usual, and hoping for the same results to happen without taking bold and decisive moves.

IDEATION FOR THE WAY FORWARD

In this last section, we will outline some of the ideas for the way forward for the Malaysian economy (as well as ASEAN countries). As it may be a bit non-traditional and unconventional, the sound bites may be a bit strong for some of the readers. We intend to provide just the sketches of the ideas, from which we plan to provide more detail analysis and the plan as well as the working steps.

The objectives are multi-folds: firstly is to generate high economic growth

<u>"Pure" private funding initiatives</u>

The first idea is for the government to do a hard push for "pure" private funding and investments in all major development projects. All these projects must meet a few major criterions, to avoid past mistakes of "privatization exercises" whereby the loads were thrown back to the government through either bailouts or implicit guarantees by the government.

<u>Expand the capital market, especially the equity market</u>

Pure private funding via equity (and sub-debts) are not possible without the second idea, which is to revitalize and expand the capital market, in particular the equity markets where large capital raising for the projects are facilitated and encouraged. Furthermore, to increase funding reach, expanding the capital market to ASEAN countries...Example of this is the United States, whereby Tesla, Google, Apple, Facebook, etc., creates market value of trillion dollars, mostly based on the market potentials, rather than free cashflows. Most of these companies are funded by equities rather than debts (i.e. with a low gearing ratio). And at the same time it creates wealth for many of its early investors and founders, as well as a source of investment income for many investors. A vibrant equity market allows such conditions to persist.

Debt-to-equity conversions and less debt dependence model of economic growth

For some of the government entities and assets, it may be possible for the assets, such as the PLUS highways to be converted into equity and list them on major stock exchanges such as the NASDAQ market. Placements and selling the shares can be accomplished at better valuations, this accomplished by better value adding exercises coupled with the assets. Similar exercises can be performed though international mergers and acquisitions of selected assets (with

Special focus on innovation, technology, "new economy" and high income economy

Special focus on "regional" efficiency gains and economies of scale

Special focus on "regional" talent pool and getting the talents back to the country

Skills and skill sets upgrades through specialized training and human development.

Focused on the ASEAN market place

ASEAN is populated by approximately 600 million people and growing. It is also strategically positioned between East Asia (China, Japan, and Korea), Sub-continent (India and Pakistan), and the Middle East. ASEAN is rich in resources, have ample manpower supplies, talent development is within reach,...

Outward and inward looking into ASEAN

Third idea is to increase cross-borders and joint country developments - between Malaysia and Thailand, Malaysia-Thailand and Myanmar, Malaysia and Cambodia/ Vietnam in the South Mekong Delta, Malaysia - Indonesia - Philippines (in East Malaysia), Malaysia - Indonesia via Kalimantan border, the straits of Malacca development with Sumatra, Indonesia.

Extensive liberalization of trade, services and investments in ASEAN

Liberalization of investments, joint developments and trade in ASEAN. This includes as well as liberalization of cross country service sectors development and exchanges. Among notable examples are in the financial services (i.e. banking and finance via digital platforms and modes), high value adding services in the digital realms.

Development of common markets for some of the commodities such as the palm oil, agriculture products, and energy resources based products (such as coal, gas and petroleum distillates). An important and vital idea is on the creation of "power exchange" or "common trading platform" between the power players (private and governments) in the region (akin to the one developed by the European Union).

Management of currency risks

Higher and more meaningful management of currency risks among the ASEAN countries. This can be a prelude to the ideation of common currency for ASEAN.

New model of international collaborations (beyond traditional FDIs)

CONCLUSIONS: WHAT ARE NEEDED

Leadership and political stability

Leadership and political will of the country. Similarly we need strong, intensive and extensive collaborations and work together with the neighbouring countries.

Reviews and changes in existing regulations and rules

Overlapping rules, complexities reduced, procedures simplified and processes shortened. Market based regulations and self determination. For example, do we allow non-Ringgit based investments and financing? Some regulations may require a complete overhaul. Undefined areas between the state and the federal government are resolved through mutual consultations and resolutions; similarly at the international level, between the country and other countries of concerns (such as disputed borders or regions).

Government with market orientation

Mental shifts by the Civil Service to be market oriented and service oriented. Market empowerment by reducing grips and control "mentality".

Good governance and transparency

Upholding higher standards of accountability, and social and environmental sustainability

Timely information, open data and knowledge

Consistent and forward looking foreign policies

APPENDIX

TABLE 1 : Year-On-Year growth/percentage increments

YEAR	GDP	Govt Revenue	Govt Debt	Inflation	Diff(rev-debt)	Cash subsidies % of revenue	Debt services as % of revenue
2010	7.5%	12.1%	10.9%	1.7%	1.2%	7.4%	10.5%
2011	5.1%	2.7%	5.5%	3.2%	-2.8%	8.4%	10.4%
2012	5.6%	7.1%	10.5%	1.7%	-3.4%	8.4%	9.9%
2013	4.7%	4.3%	9.7%	2.1%	-5.4%	8.2%	9.5%
2014	6.0%	4.4%	8.3%	3.2%	-3.9%	7.5%	9.5%
2015	5.0%	-2.7%	11.3%	2.1%	-14%	5.9%	10.1%
2016	4.2%	2.6%	7.3%	2.1%	-4.7%	5.0%	11.1%
2017	5.9%	6.5%	9.3%	3.7%	-2.8%	3.5%	11.1%
2018	4.7%	3.6%	6.8%	1.0%	-3.2%	3.5%	11.2%
2019	4.3%	5.0%	4.5%	0.7%	0.5%	3.3%	10.7%
2020	-5.6%	-7.6%	8.4%	1.2%	-16%	3.8%	12.3%
Average YOY	4.3%	3.5%	8.4%	2.1%	-5%	5.9%	10.6%

Source: World Bank Data, via ChatGPT.

TABLE 2: Household and Private Sector

	Corp. debt (percentage growth YOY)	Corporate income (annual)	Corporate sector savings	Household debt (percentage growth YOY)	Median income (monthly)	Mean income (monthly)	Household savings	Govt sector savings
2010	14.9%	RM292.3 billion (growth of 25.9%)	RM275.8 billion (growth of 19.0%)	10.8%	RM3,308 (growth of 10.3%)	RM4,397 (growth of 9.2%)	RM325.2 billion (growth of 15.8%)	RM39.7 billion (growth of 3.7%)
2011	13.2%	RM341.4 billion (growth of 16.8%)	RM312.5 billion (growth of 13.3%)	12.5%	RM3,518 (growth of 6.4%)	RM4,699 (growth of 6.9%)	RM351.8 billion (growth of 8.2%)	RM46.5 billion (growth of 17.1%)

	Corp. debt (percentage growth YOY)	Corporate income (annual)	Corporate sector savings	Household debt (percentage growth YOY)	Median income (monthly)	Mean income (monthly)	Household savings	Govt sector savings
2012	12.5%	RM383.6 billion (growth of 12.4%)	RM341.4 billion (growth of 9.2%)	13.7%	RM3,626 (growth of 3.1%)	RM4,856 (growth of 3.3%)	RM383.6 billion (growth of 9.0%)	RM50.9 billion (growth of 9.5%)
2013	9.9%	RM439.9 billion (growth of 14.7%)	RM376.5 billion (growth of 10.3%)	11.1%	RM3,783 (growth of 4.3%)	RM5,000 (growth of 3.0%)	RM408.1 billion (growth of 6.4%)	RM52.5 billion (growth of 3.2%)
2014	10.5%	RM499.2 billion (growth of 13.4%)	RM403.7 billion (growth of 7.2%)	9.8%	RM4,585 (growth of 21.2%)	RM5,916 (growth of 18.3%)	RM447.4 billion (growth of 9.6%)	RM54.9 billion (growth of 4.6%)
2015	8.4%	RM464.3 billion (decline of 7.0%)	RM400.8 billion (decline of 0.7%)	7.2%			RM456.1 billion (growth of 1.9%)	RM52.7 billion (decline of 4.0%)
2016	6.2%	RM489.4 billion (growth of 5.4%)	RM421.3 billion (growth of 5.1%)	6.7%	RM4,585 (no growth reported)	RM6,141 (growth of 3.8%)	RM453.6 billion (decline of 0.5%)	RM56.2 billion (growth of 6.6%)
2017	5.5%	RM529.5 billion (growth of 8.2%)	RM462.4 billion (growth of 9.8%)	5.9%	RM5,228 (growth of 14.0%)	RM6,958 (growth of 13.4%)	RM465.9 billion (growth of 2.7%)	RM61.6 billion (growth of 9.6%)
2018	5.5%	RM587.9 billion (growth of 11.0%)	RM485.9 billion (growth of 5.1%)	5.1%			RM472.1 billion (growth of 1.3%)	RM62.8 billion (growth of 1.9%)
2019	5.5%	RM634.5 billion (growth of 7.9%)	RM525.3 billion (growth of 8.1%)	4.8%	RM5,873 (growth of 12.3%)	RM7,901 (growth of 13.6%)	RM500.1 billion (growth of 5.9%)	RM64.9 billion (growth of 3.3%)
2020								
Average	9.2%	11.7%	9.1%	8.8%	5.1%	7.2%	5.4%	6.3%

Source: DOSM, via ChatGPT

Notes:

1. Household savings rate as percentage of Gross Disposable Income is about 32%.
2. Growth of corporate debt versus corporate income showed positive surpluses, whereby on the average the income grew at 11.7% compared to the average growth in corporate debt of 9.2%. A surplus of an average of 2.5% per year. Furthermore, the growth in debts (9.2%) is pretty much matched by the growth in corporate savings (9.1%).

3. In 2010, percentage difference between Mean and Medium income is at 33% and it is maintained throughout the period at almost similar percentage. However, the growth in median income is slower than the mean income (YOY averages), which indicates the divergence of gaps between the lower income groups and the higher income groups.

4. Growth of the household debts (8.8%) however surpass the growth in the income (both in terms of means and median), by an average of 3.7% for the median income and 1.6% for the mean income. This might indicate that the lower income of the society is at a higher indebtedness level. Issues of concern is the growth in household debts (8.8%) are not matched by the growth in household savings (6.3%).

TABLE 3: Forecast scenarios for next 5 years

YEAR	Nom GDP growth rates	Govt Revenue growth	Govt Revenue (bil)	Govt Expenditures (bil)	Govt Debt growth	Total Debt (bil)	Debt growth rates	Debt as % of GDP	Subsidies (bil)	Debt services (bil)	Emoluments and pensions	Deficit
2022			285	384		1,045		79%	58.8	29	115.7	-99.0
2023	3.5%	3.0%	294	396	5.0%	1,147	9.8%	90%	60.6	31.8	119.2	-102.0
2024	3.5%	3.0%	302	407	5.0%	1,252	9.2%	102%	62.4	34.7	122.8	-105.0
2025	4.5%	5.0%	317	428	4.0%	1,362	8.8%	116%	65.5	37.7	128.9	-110.3
2026	4.5%	5.0%	333	449	4.0%	1,478	8.5%	131%	68.8	40.9	135.3	-115.8
2027	5.5%	6.0%	353	476	3.0%	1,601	8.3%	150%	72.9	44.3	143.5	-122.7
2028	5.5%	6.0%	375	505	3.0%	1,731	8.1%	171%	77.3	47.9	152.1	-130.1
	4.5%	4.7%			4.0%		8.8%		20.6%	12.8%	40.6%	

Source: Own forecast and estimates

Notes:

1. Nominal GDP estimates for 2022 is at RM1,320 million; Total debt is at RM1,045 million.

2. After taking into accounts subsidies, debt services, and emoluments plus pensions, the total revenue left for other expenditures is only about 25%. Balance of the budget is financed through deficits (as per the last column).

List of mega projects and its indicated size and status

Project	Projected amount	Status
Iskandar Malaysia	RM383 billion	In progress
MRT	RM40 billion	Completed
Tun Razak Exchange (TRX)	RM40 billion	In progress
Forest City	RM400 billion	Delayed
High Speed Rail	RM110 billion	Postponed
Pangerang Integrated Petroleum Complex	RM200 billion	In progress
East Coast Rail Link (ECRL)	RM55 billion	In progress
Pan Borneo Highway	RM30 billion	Delayed
TOTAL	RM1,258 billion	

REFERENCES

1. Reinhart, Carmen and Kenneth Rogoff, *"This Time is Different: Eight Centuries of Financial Folly"*, Princeton University Press, 2009.
2. Aghion, Philippe, Celine Antonin, and Simon Bunel, *"The Power of Creative Destruction: Economic Upheaval and the Wealth of Nations*", Harvard University Press, 2021.
3. Dalio, Ray, *"Principles for Navigating Big Debt Crisis"*, Bridgewater Associates LLP, 2018.
4. Skidelsky, Robert, *"Money and Government: A Challenge to Mainstream Economics"*, Allen Lane, 2018.
5. Roubini, Nouriel, *"Crisis Economics: A Crash Course in the Future of Finance"*, Penguin Books, 2010.
6. Gethin, Amory, Clara Martinez-Toledano, and Thomas Piketty, Editors, *"Political Cleavages and Social Inequalities: A Study of Fifty World Democracies, 1948-2020"*, Harvard University Press, 2021.
7. Koo, Richard C.,*"The Escape from Balance Sheet Recession and the QE Trap"*, Wiley, 2015.
8. Koo, Richard C.,*"Pursued Economy: Understanding and Overcoming the Challenging New Realities for Advanced Economies"*, Wiley, 2022.
9. Bradford DeLong, J., *"Slouching Towards Utopia: An Economic History of the Twentieth Century"*, Basic Books, 2022.