

# 10<sup>th</sup> Malaysia Plan

## Set GDP growth target at 5.5%, private sector-driven

Wan Suhaimie

Economist

wansuhaimi@kenanga.com.my

Tel: 603-2161 9657

### HIGHLIGHTS

- The Government set a preliminary average GDP growth target of 5.5% to be achieved in the 10<sup>th</sup> Malaysia Plan (10MP) following an estimated 3.2% average growth under the Ninth Malaysia Plan (9MP). With private sector expected to take the main lead, the Government said growth would be driven by high value added services, manufacturing and agriculture sectors.
- Unless the Government takes a more aggressive stance to stem human capital loss and sluggish private sector investments, it would be difficult for Malaysia to rise above its minimum growth potential of 6.0%. At this juncture, a more realistic long term growth trend for Malaysia would be between 4.0% to 5.0%.
- On this basis, to achieve Malaysia's goal of becoming a developed high income nation by 2020 would be a very challenging task. To meet the current World Bank's minimum classification to achieve a high income nation (per capita income of US\$17,000) would require GDP growth of at least 8.0% per annum till 2020. This is assuming that Malaysia's population would grow at an average of 2.1% annually and the ringgit appreciating at a steady rate of 5.0% per annum against the US dollar. But this is a simplistic assumption which has not taken into account the rapid changes in global trade and technology as well as the gradual socio-politico shift domestically and abroad.

**Setting growth target for 10MP.** While the 10<sup>th</sup> Malaysia Plan (10MP) is slated to be announced by end of this year, the Government has already set a preliminary average GDP growth target of 5.5% from 2011 to 2015. According to the Economic Planning Unit, in its briefing with captains of industries on Nov 10, under the macroeconomic prospects and strategic directions, the target was to achieve real GDP at an annual average of RM670.8b. With private sector expected to take the main lead, the Government said growth would be driven by high value added services, manufacturing and agriculture sectors.

### Malaysia's Growth Trend (1971 – 2010)



Source: Department of Statistics, Kenanga Research, shaded area denotes periods of recession

**Private sector driven** This time round the Government is expected to take the back seat while letting the private sector be the growth driver. On the demand side, the Government projects total consumption to grow 6.7%, of which the chunk of it will be derived from the private sector growing at 7.8% while the public consumption is forecast to expand by 2.5%. As for investments, the gross capital formation is projected to expand by 5.1%. In view of its consolidation of its balance sheet, the public sector's investment growth is expected to shrink 0.7% from an estimated 7.2% in the 9MP. Meanwhile, the Government wants private investments to grow by 10.5% or average of almost RM90.0b per annum under the 10MP. We believe that this is no mean feat as the average amount during 9MP is estimated at about RM56.0b.

**Services sector to lead growth.** The main driver for growth in the 10MP would be high value added services, manufacturing and agriculture sectors. The services will take the lead with growth projected at 6.3% followed by manufacturing at 5.6%, agriculture at 3.4%, and construction up by 3.4%. Mining, however, is forecast to contract by a marginal 0.1%.

**Its gonna be tough.** Unless the Government takes a more aggressive stance to stem human capital loss and sluggish private sector investments, it would be difficult for Malaysia to rise above its minimum growth potential of 6.0%. Plus the global economy especially of the US, may take time to heal from the

**Malaysia Economic Plans since 1971 – Growth Achievements and Target (Five-Year Average)**

	2MP	3MP	4MP	5MP	6MP	7MP	8MP	Target	Achieved (Est.)	Target
	1971-75	1976-80	1981-85	1986-90	1991-95	1996-00	2001-05	9MP 2006-10	10MP	2011-15
Consumption	6.6	9.8	3.7	5.4	8.1	3.3	7.4	6.5	5.6	6.7
Public Cons.	10.3	10.8	4.2	3.9	7.8	3.2	10.2	5.3	4.2	2.5
Private Cons.	5.7	9.6	3.7	5.8	8.2	3.4	6.6	6.9	6.0	7.8
Gross Cap. For mation	7.2	15.2	5.5	11.7	18.8	-0.1	1.6	7.9	3.8	5.1
Public Investment	16.7	15.4	11.5	3.0	14.3	7.2	3.9	5.0	7.2	0.7
Private Investment	12.0	13.0	1.9	21.1	20.2	-5.0	-1.0	11.2	1.0	10.5
Exports	6.1	9.8	7.3	14.0	16.2	8.9	5.2	7.1	0.1	NA
Imports	6.6	15.7	5.0	14.7	19.2	5.4	5.6	7.9	1.4	NA
<b>GDP</b>	<b>6.7</b>	<b>8.5</b>	<b>5.2</b>	<b>6.9</b>	<b>9.5</b>	<b>5.0</b>	<b>4.5</b>	<b>6.0</b>	<b>3.2</b>	<b>5.5</b>


Source: Economic Planning Unit, Ministry of Finance, Dept of Statistics, Kenanga Research,  
Note: From 1971 till 2005 GDP base year is 1987, from 2006 till 2015 the base year is 2000

worst downturn since the depression. Furthermore, being Malaysia's top export destination, the US economy may still have pockets of weakness especially in the financial sector as well as its burgeoning public debt. Though China's economic influence is catching on and growing steadily it may not be sufficient to set off any demand shortfall in the advance economy. At this juncture, **a more realistic long term growth trend for Malaysia would be between 4.0% to 5.0%.**

**Human capital to be prime focus of 10MP.** In order to achieve the Government medium and long term growth target we expect its main focus would be in education as well as targeting new growth areas and sectors to boost private sector investment. **We expect at least 25.0% or the bulk of the allocation would be directed towards education and training compared to about 23.0% for 9MP.** The Government has already hinted a smaller allocation of RM180.0b for 10MP compared with RM200.0b in 9MP. It may have over financed the 9MP by RM20b-RM30b due to the pump priming efforts to cushion the global economic slowdown.

**Moving closer towards GST.** As the Government is already finalising the impact study on GST, we would not be surprise if it were to be announced as part of the 10MP. As we have highlighted before, the gradual reduction and realignment of both personal income tax and corporate tax rate is a step closer towards converting Malaysia's current tax regime to the GST system which has been postponed indefinitely since it was first announced in the 2005 Budget. Alternatively, **the broader tax base under the proposed GST is expected to be able to increase the Government's coffer and would likely more than compensate the shortfall in corporate and individual tax collection.** With Singapore and Australia as a role model of a successful GST regimes and the fact that they are less prone to declining income during an economic

downturn compared with nations that adopt conventional tax regime, it is timely for Malaysia to implement the GST.

**High income goals needs reality check.** To meet Malaysia's goal of becoming a developed high income nation by 2020 would be a very challenging task. It's a deceiving notion to believe that in order for Malaysia to achieve a developed nation status its GDP needs to grow by only an average of 6.0% till 2020. For one, **its average GDP growth needs to consistently expand by at least 8.0% annually to meet the current World Bank's minimum classification to achieve a high income nation** (per capita income of US\$17,000). This is assuming that Malaysia's population would grow at an average of 2.1% annually and the ringgit appreciating at a steady rate of 5.0% per annum against the US dollar. But this is a simplistic assumption which has not taken into account the rapid changes in global trade and technology as well as the gradual socio-politico shift domestically and abroad. Plus the World Bank's minimum requirement may be adjusted even higher over time and the possibility of devaluing US currency. 

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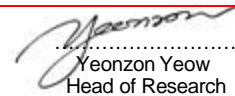
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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia

Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: [www.kenangaresearch.com](http://www.kenangaresearch.com)



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Yeonzon Yeow  
Head of Research