

When the economy is bad, throw out the NEP... again

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It happened during the gut-wrenching recession in 1986. It happened again during the Asian financial crisis in 1998. And now with the world in the throes of a severe economic crisis, the government is mulling the possibility of suspending aspects of the New Economic Policy.

Government officials told The Malaysian Insider that the affirmative action policy could be held in abeyance for one or two years depending on the severity of the impact of the crisis on the economy.

In 1986, the Mahathir administration surprised many when it suspended the implementation of the NEP, hoping the move would invite the flow of foreign investments needed to kick start an economy badly hit by the drop in commodity prices.

Tun Dr Mahathir Mohamad returned to the same playbook in 1998 when the currency crisis in the region sent the economy into a tailspin.

Government officials say that many elements of the original NEP — a policy set in place by Tun Abdul Razak and aimed at eradicating poverty and restructuring society — have been dismantled over the years.

But the view among foreign and domestic investors is that a cornerstone of the policy — which makes it necessary for Bumiputeras to own 30 per cent equity — makes Malaysia a less attractive place to do business than Vietnam, Indonesia, Singapore or Thailand.

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Export figures for December to be released today will show an economy grinding to a halt. The Malaysian Insider understands that fourth quarter growth is likely to be just over 1 per cent and economists believe that the government will have to cut its forecast of growth for 2009 from 3.5 per cent to 0.4 per cent.

The government is also re-examining the role of the Foreign Investment Committee, a committee which approves investments by foreigners in Malaysia. Top banker Datuk Nazir Razak recently said that Malaysia must review its race-based economic policies if it hopes to rein in political discontent and regain competitiveness.

He noted that the NEP had damaged national cohesion and hindered investment. *“It is timely to examine the NEP, look at how the NEP retards national unity, investments and economic efficiency and develop a new, more relevant framework for economic policy-making,”* said Nazir, who is chief

executive officer of Malaysia's second largest bank CIMB.

The NEP was designed in 1971 after race riots to narrow the wealth gap between the majority Malays and the richer ethnic Chinese.

Critics say the NEP has enriched those businessmen who are politically connected and encouraged cronyism and corruption in the coalition that has ruled Malaysia for 51 years.

Political analysts have said that Nazir's comments would carry weight with his brother, Datuk Seri Najib Razak, the country's incoming prime minister.

P.S.

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