

## **Petroleum to play a lesser role in the economy**

The importance of oil and gas to the modern Malaysian economy seems readily obvious. The twin towers that stand majestically in Kuala Lumpur are a towering testimony. Oil can be a curse, not a blessing, if this precious resource is mismanaged, as shown by the experience of some countries. In the case of Malaysia, one may argue, the record has been fairly impressive.

Petronas, the national agency that manages the nation's oil and gas resources, has performed remarkably well in carrying out its task by any yardstick. What is more, Petronas has spread its wings and ventured overseas in a big way, garnering billions in foreign exchange earnings through international operations.

Petronas' international operations contribute over one-third of its total proceeds, while its exports represent roughly 40 per cent, with domestic operations accounting for the rest. It is noteworthy that the Group's external revenue has risen sharply from RM25 billion in 2003 to RM56.6 billion in 2006. Petronas' exports are sizeable, accounting for 12.4 per cent of Malaysia's total exports.

Petronas is also a significant contributor to the nation's manufacturing sector, one of the main drivers of growth. Its domestic manufacturing revenue share in the manufacturing sector's contribution to the country's gross domestic product (GDP) is substantial to the tune of nearly 29 per cent. Its manufacturing activities constitute roughly one-third of the Group revenue.

Crude oil and liquefied natural gas (LNG) account for only one-fourth and one-sixth of Petronas' revenue, respectively. The rest comes from a variety of other sources, which include petroleum products (34.1%) petrochemicals (7.6%) and shipping (4.5%).

Needless to say, Petronas has been very lucky, as it owes its crowning success in no small measure to the high prices of oil in recent years. Much of its profits are really windfall gains. Last year, Petronas posted RM69.4 billion in profit before tax, with a total asset value of RM273 billion.

What's most striking about Petronas is its high-profile contribution to the government revenue. Last year, Petronas contributed RM 41.7 billion to the Federal Government revenue in taxes, dividends, royalties and export duties. Petronas claims that it has so far "returned" RM336 billion to the Government.

The importance of Petronas as a source of government revenue has grown enormously in recent years, thanks to the high prices of oil. Its contribution to the Federal Government revenue has grown from 19.5 per cent in 2001 to 27.3 percent in 2003 and 34.4 percent in 2006.

It is however unfortunate that oil and gas are non-renewable resources with finite supplies. According to Petronas, Malaysia's crude oil reserves of 5.25 billion barrels

will last for another 20 years at current rates of extraction. According to independent analysts, however, the proven reserves of 4.2 billion barrels would only last another 14 years. Be that as it may, there are clear indications that Malaysia could become a net oil importer by 2009.

The situation is not as bleak as it may sound. Petronas has a life of its own, thanks to its growing international operations, and will therefore continue to play an important, albeit lesser, role in the Malaysian economy, after the depletion of national oil reserves.

All this however has serious budgetary implications for the Government. With Malaysia becoming a net oil importer, the chances are that oil revenue growth will decelerate while that of oil subsidy will accelerate. There is certainly a need to look for alternative sources of government revenue. Given competitive reductions in corporate tax rates, and declining oil revenues, the call for value-added tax (VAT) on consumption expenditure would become all the more relevant.

It is also pertinent to note that the present generation of Malaysians has been enjoying the nation's oil wealth at the expense of posterity. There is a hardly a whisper of the National Trust Fund, which was set up in 1998 to hold some of the oil incomes in trust for the benefit of the future generation. This Fund, administered by the central bank, has apparently remained small and dormant. It is still not too late to breathe new life into this Fund. Better late than never.

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