NEAC
National Economic Advisory Council
New Economic Model for Malaysia
NEAC
Section I

I. The Boiling Frog Syndrome of the Economy
   “Spiralling Downwards, Racing to the Bottom”

II. The New Economic Model (NEM)

III. Implication on Higher Education
We Have Been in the Middle Income Trap for Quite Some Time

History shows the need of a compelling reason to change is required to escape

![GNI Per Capita Graph](source)

*Source: World Bank, NEAC Analysis*
Post Asian Crisis, Our Growth Rate Has Been Mediocre
We are no longer a clear leader in the region having lost our shine

Average annual GDP growth

Pre-crisis 1990-1997; %

- China: 11.5
- Malaysia: 9.1
- Singapore: 8.6
- Vietnam: 8.4
- S. Korea: 7.2
- Taiwan: 7.0
- Indonesia: 6.1
- Thailand: 5.5
- India: 5.4
- Philippines: 3.2
- US: 2.9
- UK: 2.0
- Japan: 1.6

Average 6.0

Post-crisis 2000-2008; %

- China: 10.0
- Vietnam: 7.5
- India: 7.0
- Malaysia: 5.5
- Singapore: 5.4
- Indonesia: 5.2
- Philippines: 5.0
- S. Korea: 4.9
- Taiwan: 4.8
- Thailand: 3.8
- UK: 2.5
- US: 2.4
- Japan: 1.5

Average 5.0

Our growth rate is now equivalent to that of our neighbouring countries
Not Investment But Consumption Has Been Driving Growth
The private sector has taken a backseat with the government filling in the vacuum
NEAC is Also Concerned With the Income Profile of Households

80% of Malaysian workers are not in a position to drive the economy upwards

*For Malaysia to break-out of the middle income trap, income must increase commensurate with the higher value add activities.*

- The low income group comprising 40% of income earners are not able to participate positively to the growth of the economy.

- For inclusivity, the 40% low income group must be included in the reforms and for sustainability, social harmony is of paramount importance to be achieved through efforts to reduce the income gap and regional inequalities. To achieve the goals of NEM requires a holistic both an economic and socio-economic transformation plan.

- The economic potential of the 80% of income earners (bottom 40% and middle 40%) earning less than RM3,000 per month needs to be enhanced thus allowing them to move up the value chain.

- Increasing income disparity between the top 20% of income earners and the rest gives rise to the potential for social instability.
Deficiencies Preventing Us from Moving Forward
Fundamental reform is long overdue

We are trying to compete globally with significant handicaps

MACRO ISSUES

Controlled Pricing System
Undervaluation of resources results in gross misallocations

Education Sector
Failing to deliver required talent to the economy

Lower Income Group
(<RM 3,000) is falling behind and not realising its potential contribution

MARKET ISSUES

Corruption
High level perception

Talent
Insufficient numbers to drive growth

Private Sector
Short-sighted in business outlook

Rent-Seeking and Patronage
Pervasive behaviour

Labour Market
Overreliance creates distortion and impedes productivity

Public Sector
Ineffective and siloed impeding investment

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Major Concerns Voiced Out by Potential Investors
Mainly on the lack of talent and red tape

*Two main recurring themes voiced out by stakeholders during consultative engagement groups*

- Available **talent and skills** not forthcoming from Malaysia. Potential firms are finding it hard to justify setting up operations in Malaysia due to the appropriate lack of skills being available.

- Highly bureaucratic administration and overly **cumbersome red tape** increases the cost and time invest and do business in Malaysia comparatively.
Talent is Lacking and Wanting
Human capital has been leaving the country and we are not nurturing enough local talent

Number of skilled expatriates in Malaysia
2000-2008; no. of workers

Graduates from IPTA and IPTS in degree programme
2002-2007; no. of graduates

Graduates from technical and vocational schools
1999-2009; no. of graduates

CAGR -9%
Present Malaysian Workforce and Jobs Not Conducive for Growth

Educational profile of workforce and jobs are cause for concern going forward

Malaysia: 80% of workforce educated up to SPM level only

Jobs: Only 25% of Malaysian jobs are in the higher skilled bracket. Developed nations have higher proportion.

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Dominance of Low Skill Levels Across Almost All Industries
This denotes the daunting work to upgrade skills to move up the value chain
NEAC’s Concern on Investors Already Operating in Malaysia
Why are we not upgrading and moving up the value chain?

Investors currently operational in Malaysia and to a large extent the domestic participants point to the fact that:

- The inability of companies to be able to have the access to appropriate skilled labour and talent both foreign and local

- The R&D capabilities are limited in Malaysia to be able to move up the value chain. Insufficient numbers of quality researchers have led to a low priority given to R&D activities hence the low amount of R&D expenditure reported
We are Not Innovating but We Need to for Sustainable Growth
Low R&D capabilities compared to the rest of the world

- GNI per capita (USD)
- No. of researchers in R&D (per million people)
- No. of scientific & technical journal articles

Countries: USA, UK, Sweden, Spain, Norway, Slovenia, Canada, Singapore, Australia, Malaysia, S. Korea, Japan, Italy, Germany, Denmark, Czech Republic

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We Continue to Lose Out to Our Asian Neighbours
We spend less on scientific research

Country scientific infrastructure ranking

<table>
<thead>
<tr>
<th>Country</th>
<th>Ranking 1997</th>
<th>Ranking 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>28</td>
<td>6</td>
</tr>
<tr>
<td>Indonesia</td>
<td>35</td>
<td>25</td>
</tr>
<tr>
<td>Malaysia</td>
<td>24</td>
<td>28 (↓)</td>
</tr>
<tr>
<td>India</td>
<td>29</td>
<td>29</td>
</tr>
</tbody>
</table>

Ranking based out of 55 countries

Source: DOS Malaysia, World Bank and IMD, BNM

Expenditure on R&D (% of GDP)

<table>
<thead>
<tr>
<th>Country</th>
<th>1997</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>0.9</td>
<td>1.5</td>
</tr>
<tr>
<td>India</td>
<td>0.8</td>
<td>0.8</td>
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Amidst Global Changes, Our Advantages are Being Undermined
We must act before our position deteriorates further

Our strong position in commodities and manufacturing is being eroded

Intense competition in our new sources of growth e.g. medical tourism, ICT, and Islamic products and services

Global investment is focusing on larger scale markets, not small economies

Our immediate neighbours have renewed vigour evidenced by growth rates; reforms are well being implemented

Lack of talent and innovation, ineffective institutions and widespread corruption are barriers to growth

In the region, our economy was one of the hardest hit by the recent global crisis

WE CANNOT CONTINUE AS WE ARE

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Section II

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The Prime Minister’s Vision - Transforming Malaysia

The Two Pillars of the National Transformation Programme

1Malaysia – People First, Performance Now
Preservation and Enhancement of Unity in Diversity

Government Transformation Plan (GTP)

Effective Delivery of Government Services

Economic Transformation Programme (ETP)

New Economic Model
A High Income, Inclusive
And Sustainable Nation

10th & 11th Malaysia Plan Roll-Out
Macroeconomic growth targets & expenditure allocation
Implementation of Government’s Development Programmes

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**New Economic Model (NEM)**

**HIGH INCOME**

- Targets USD15,000 - USD20,000 per capita by 2020

**Rakyat**

- Quality of Life
- Meets present needs without compromising future generations
- Enables all communities to fully benefit from the wealth of the country

**INCLUSIVENESS**

**SUSTAINABILITY**

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**Economic Transformation Programme (ETP)**

8 Strategic Reform Initiatives (SRIs)

1. Developing Quality Workforce
2. Competitive Domestic Economy
3. Strengthening Public Sector
4. Transparent & Market Friendly Affirmative Action
5. Building knowledge base infrastructure
6. Enhancing Sources of Growth
7. Ensuring Sustainability of Growth
8. Re-energising Private Sector

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### Strategic Reform Initiatives (1/2)

#### Policy Purposes and Targets

**SRI 1**

**Re-energising the private sector to lead growth**

1. Target high value added product and services
2. Remove barriers and cost to doing business
3. Create eco-system for entrepreneurship and innovation
4. Encourage efficiency through healthy competition
5. Promote SME growth
6. Nurture regional champions

**SRI 2**

**Developing quality workforce and reducing dependency on foreign labour**

1. Increase local talent over time
2. Re-skill the existing labour force
3. Retain and Access global talent
4. Remove labour market distortions constraining wage growth
5. Reduce reliance on foreign labour

**SRI 3**

**Creating a competitive domestic economy**

1. Improve economic efficiency through competition
2. Build entrepreneurship
3. Remove market distortions leading to misallocation of resources

**SRI 4**

**Strengthening the public sector**

1. Improve decision-making process
2. Improve service delivery
3. Reduce ‘friction costs’
4. To facilitate smooth transition from periods of disruption
5. Strengthen public finance management
Strategic Reform Initiatives (2/2)

Policy Purposes and Targets

**SRI 5**
Transparent and market-friendly affirmative action

1. Reduce income disparity
2. Create market friendly affirmative action
3. Narrow regional differences
4. Encourage reward on the basis of performance
5. Promote equal and fair access to opportunities

**SRI 6**
Building the knowledge base infrastructure

1. Create ecosystem for entrepreneurship
2. Promote an environment for innovation
3. Establish stronger enabling institutions

**SRI 7**
Enhancing the sources of growth

1. Create value from first mover and other comparative advantages
2. Develop greater integration between products
3. Create new markets
4. Build scale of industries and production networks for specialisation
5. Harness innovation potential
6. Integrate real sector industries with financial services

**SRI 8**
Ensuring sustainability of growth

1. Preserve natural resources
2. Maximise economic value to Malaysia of our natural resources
3. Meet international commitments

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Role of Higher Education in the New Economic Model
- More reforms?

<table>
<thead>
<tr>
<th>Five (5) Selected Issues</th>
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<tbody>
<tr>
<td>Producing skilled human capital needed by market – <em>how far the higher education sector is willing to be driven primarily by market demand</em></td>
</tr>
<tr>
<td>Higher education as the source for R&amp;D and innovation – <em>how much investment is needed, how to forge closer links with industries and is the environment encourages innovation</em></td>
</tr>
<tr>
<td>Large budget allocation to the education sector but the outcome is below expectation – <em>how to improve outcome of the education (in particular higher education) sector</em></td>
</tr>
<tr>
<td>Rising the income level - <em>can the higher education sector produce human capital that is competitive with high skills who can earn high income and how to ensure low income groups have access to quality education which will help improve their livelihood</em></td>
</tr>
<tr>
<td>Higher Education as the key driver for the NEM – <em>can it attract the best talent for producing human capital, innovation that will lead growth, ensure inclusiveness and promote sustainability</em></td>
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</tbody>
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Thank you