

Iskandar: Not yet a Blue Ocean strategy
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The New Sunday Times this week featured two very interesting opinion pieces in its centrepage spread. One by Abdul Razak Ahmad highlighted integration issues related to our first 50 years as a nation and the other by Khairy Jamaluddin who defended the socio-economic integrity of the Iskandar Development Region.

This past week, I also happened to have had lunch with my good friend and first president of the Malaysian Integrity Institute; the current director-general of the EPU. His big burden for now is to frame our strategic macro-economic vision and agenda for the next 50 years, until 2057. Therefore, Professor Khoo Kay Kim's question, 'What should be our agenda for the next 50 years' is a valid and relevant way to frame future core issues of our nation we call Malaysia.

How can we emulate and replicate our past successes when the world is changing faster? How can we do it when the world of tomorrow will not be the world of today? How will we do it in a more porous and dynamic world, wherein control of the key enabling factors is mostly outside of our jurisdiction? How can we do it responsibly and equitably given our multi-cultural framework of community development?

How can we still move towards a more liberal economic environment which is the demand of the new free trade environment? How can the government become more private-sector driven and less EPU-driven via 'hand-outs of large projects'? How can we become more demand-driven as opposed to supply-driven in our macro-planning? How can the Khazanah and other government-linked companies - which define more than 30 percent of Bursa Malaysia's value - become more attractive stocks for international private equity trust funds?

Three-fold challenge

My piece this week will seek to answer some of these questions. To me the core issue for Malaysia's future remains this - how we continue to integrate with integrity. This will be our most critical challenge of the next two score and ten years. In simple terms, it will be our Malaysian-ness and our global relevance and systemic integrity which will define our future as a nation-state in a border-less world. I am no mathematician (my family can tell you that) but I believe that the answer to our query and concern lies in an almost mathematical construct called 'integrity'.

I believe that the root word in Greek is 'int' which must mean to put together or make whole but implied within it is also the idea of an 'integer' or wholeness; the root definition. To integrate is to pull all things together using a single axiom and developing a model by which the different components can be fitted together to justify the uprightness (and integrity) of the single axiom. The best metaphor to capture these ideas may be the jigsaw puzzle. A puzzle with an entirely beautiful national vision but which exudes a kind of awe or a kind of synergy when completely assembled.

Malaysia's multi-cultural aspect can become our greatest and best building block

which hitherto has not yet been sufficiently mobilised. The wholeness of Malaysia can become greater than the sum of her component parts. Integrity then is the ability of that system to stand upright in completeness and wholeness, in light of all the turbulence in an ever-changing environment.

Therefore, the challenge for the 'Bangsa' (or whatever else we call ourselves by then) of Malaysia 50 years hence would be three-fold. First, would we have become Malaysians, much like the Americans who hold their national identity greater than their race, or would we still hide under the racial identities of our parentage (in many cases of no more than one or two generations)? Second, can we still continue to make our cake bigger and better than our neighbors so that we can meet the needs and wants of our next generations or are we going to be fighting for the little crumbs that fall under the table of the big powers in the region?

Thirdly, will we have eradicated the current and historical identification of race with economic function? How can we also ensure that all the marginalised citizens of Malaysia can live a life of dignity and destiny in this country by 2057? Will we be able to bridge the digital technology divide? These remain our 2057 challenges.

If achieving the above challenges is our 'idealised' vision of 2057, where then are we today in real terms? What is the actual story today? It is here that the CPPS study done by Dr Lim Teck Ghee raised some fundamental and critical questions that we must not shy away from. That remains the core issue of the so-called 'bumiputera thing' as labeled by the other KJ, in his NST article in defence of the Iskandar Development Region's "unique value proposition". His core argument is that the IDR has only 'classified two percent of its total land surface' for 'a totally free trade and manufacturing zone'.

There are no Foreign Investment Committee conditions related to race or economic function and all local and foreign investors are totally free producers or manufacturers so long as they do not rely on Malaysia as their base-market. Does this two percent strategy for the IDR alone make it a Blue Ocean strategy in the language of Prof W Chan Kim? Or is KJ's argument more defensive suggesting that we are only seeking the anchor 2% tenants from the global players and the rest will still be 'jaguh kampung-type' of businesses?" Surely, that cannot be the full KJ argument. At least, it is not enough to defend against the DR Mahathir Mohamad's critique of a 'sell-out to the Singaporeans'.

The 'manufacturing plus plus' argument

During my five years at Ministry of International Trade and Industry, my boss and I had the privilege of developing and selling Michael Porter's 'clusters development model' as a way of framing the turbulent change and challenges facing the nation as we planned for the Second Industrial Master Plan (we are now in the IMP3 period). Our central thesis was two value chain curves with the lowest points being popularly called 'low-value added screw driver operations'.

Our central general thesis was that much of Malaysian manufacturing has that quality to it; focused on cheap labour and cheap land model of manufacturing development. These were based on the FTZ Version 1 and 2 models.

Even though by the early 1990s, we had moved up the value chain in terms of the

quality of manufacturing operations (for example, Intel had about 500 engineers in the Penang design center of operations and all of them were Malaysians) we were still 'low of poor value-added' in terms of the real IP value. The Penang design centre was therefore only still a relatively 'screw driver operation'. The Malaysians were excellent and well trained but they could only manufacture while they worked with Intel.

Once in a while, you'd get a spin-off company like Eng Technology which spins off from Intel through the hard work of an engineering entrepreneur and then becomes the supplier of Intel's brand of products. They become components and part manufacturers and suppliers for Intel. But still, in the language of the IMP2, they had not yet moved up the value chain to achieve either of the two pluses. The two pluses were product design and own brand names in the upstream end, or downstream marketing and distribution like the Dells of the world.

If the 'manufacturing plus plus' agenda was actively achieved, then we would still only have moved up the value-chain on the first curve. We still have a second curve though. The second and less understood curve related to what was then called 'information-intensive knowledge -driven processes strategy'. In today's language it is called the creation of a knowledge economy.

In a k-economy, the greatest value-add for any manufacturer or producer is the brand-name. For instance, Royal Selangor is a very well known global brand-name for pewter-ware. When you own the brand-name you also own the Intellectual Property or IP for the same and therein lies the highest value-add of the product.

In the case of Intel, regardless of what investment incentives we give them, Intel will never give up their IP to others in whatever way, and regardless of who you are. For example, when we were in the midst of negotiations for incentives for the Intel Motherboard plant at Kulim's HiTech Park, I casually asked their VPs from the US if they would consider branding 'Intel Inside' as 'Intel-Malaysia Inside'.

I only received a dirty look and not much else! But that is precisely my point. It was also the point of Dr Aziz Mahmud when he was in Miti and when he 'professionally disagreed' with the minister on the real value added contribution of all such 'screw-driver operations'.

The cost-benefit must be done against the real quantum of value directly derived by the local operations of these international value chain production systems. I call them 'cheap body shops' unless they bring in a cluster of components and parts manufacturers and add to the entire value chain, always upgrading all of them as a whole cluster.

Where is the real value?

Therefore to my mind, the Iskandar Development Region (even the 2%) is still merely a Free Trade and Manufacturing Zone version 4; another 'cheaper body shop' with little or no real value proposition than cheaper factors of production. What really is the difference between this and the original FTZ Version 1 in the Bayan Lepas of yester years? Then too, we also provided cheaper land and labour in the form of hands and feet but without the use of brains. Version 2 was the Kulim HiTech Park and the Taman Technology Park with far more sophisticated forms of infrastructure, especially uninterrupted electricity supply, and other related IT and design facilities.

But still, only via cheaper factors of production. What is our unique productivity factor which others could not duplicate or replicate; especially those from India and China? The FTZ Version 3 became the Multimedia Super Corridor; designed originally as a Blue Ocean initiative but which was reduced to become simply another a Red Ocean infrastructure project by poor vision in its implementation and the even worse translation by the Umnoputeras, Tengkuputeras and the Kongsiputeras.

The MSC was never originally designed and to be sold only as a Version 3 of a 'free trade and manufacturing zone'. The prime mover of this multi-media Utopia ideal, Dr Kenichi Ohmae, had always envisioned the MSC as a convergence of the strengths of both the Silicon Valley combined with the content skills of Hollywood.

But, thanks to our lack of visionary implementation, the MSC became simply just another infrastructure project and the McKinsey final review accurately described the real reason behind its failure.

Therefore, while the point that the IDR is not a 'sell-out' as made by KJ is an important one, I fail to see how the new generation of Malaysian and foreign players can take advantage of the incentives to create new value. The 2% incentive will definitely attract the physical relocation of many regional and operational headquarters of Singapore or Hong Kong based companies, with even some Malaysian ones, but what is the real value contribution of the Malaysians? Operations there may finally only become 'high class body shops'; multinational regional operations centres relocating at an obviously cheaper location.

Many Malaysians may get even employed there, but where is the real value creation coming from? What is the real gain for Malaysia at the expense of giving away all of the incentives and other goodies?

I remain unconvinced about the real value potential of the new Iskandar Development Region agenda. If it remains only another FTZ, even if it is Version 5, the net results are really the same. We are not owing and creating value of our own but are instead providing incentives to continue another 'manufacturing plus plus' agenda while still only operating on the first curve.

If we are really serious about the K-Economy argument of the MSC, we must move ahead and think even more strategically regarding how to develop clusters of Malaysian industries where we own and can develop the product design and are able to increase the value-added.

They may come from any of the existing industries or new ones, but it requires a new kind of Blue Ocean thinking and planning - not the industrial age era's thinking and planning which produces Red Oceans.

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