

M'sia must break out of 'boiling frog syndrome'
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Malaysia must break out of the cheap labour mentality and "boiling frog syndrome", if it wants to achieve its aspiration of becoming a high income economy, say top officials of the National Economic Advisory Council (NEAC).

"We have to go back to fundamentals. Our companies are still relying on cheap labour and subsidies and that we continue to allow this. We've got to break this," its chairman Amirsham Abdul Aziz said.

He was speaking during a question-and-answer session at a dinner forum on the New Economic Model (NEM) organised by the Special Affairs Department (Jasa) of the Ministry of Information Communication and Culture recently.

The NEM, unveiled by Prime Minister Najib Abdul Razak last month, is aimed at transforming the nation into a high-income economy that is sustainable and inclusive and will position the country on the right path towards attaining developed nation status by 2020.

"The driver of growth has been the government, with high level of subsidy provided to stimulate the economy. The chances are our deficit will go up," he said at the forum. Also present was the ministry's Secretary General Kamaruddin Siaraf.

"This is further compounded by huge subsidies for fuel, food, healthcare and education," said Amirsham who was appointed to the post in June last year to help the government keep Malaysia from a looming recession.

"Three to four years from now, we can forget about high income economy if we continue to take the same path. Hence, we have to set the fundamentals. Real growth driver should be the private sector. The government only steps in when there is a major crisis," he said.

Malaysia has to deal with the budget hangover from pump priming measures totalling RM67 billion.

Subsidies cost the government an equivalent of about two to three per cent of Gross Domestic Product (GDP), and is a drag on the budget deficit which expanded to a 20-year high of 7.4 per cent of GDP in 2009. Under the 2010 budget plans, total subsidies for fuel and food are targeted to fall by 14.7 per cent to RM20.9 billion.

Briefing representatives from agencies under the ministry, the private sector and non-governmental organisations at the forum, NEAC secretary Norma Mansor said Malaysia had been running on a subsidy mentality for too long and that had lulled the people into a "boiled frog syndrome."

"Even when the water temperature keeps rising, the frog does not feel it is boiled as it is used to it. Similarly, people are used to be given subsidies. We subsidise everyone including expatriates."

She said the NEM needed to have safety nets in place before the proposals for the overhaul of the economy can be implemented.

These social nets are needed as there are groups who find it difficult to adapt to the

changes brought about in implementing the new proposals. For instance, labour productivity and efficiency must come with better training, retraining and multi-tasking, she added.

"Whilst developed economies support people who are not productive to the nation, Malaysia does not want to be a welfare state," said Norma.

Giving the *raison d'etre* for the New Economic Model, she said the recommendations took stock of the 1998 Asian financial crisis, which saw Malaysia being overtaken by many countries.

The situation was aggravated by the 2007 global financial meltdown, which hurt the nation's exports, she said.

She said whilst Malaysia's public consumption was high, accounting for 30 per cent of the GDP, the population was too small to be the engine of growth, with low purchasing power among the populace.

"It is public investment that is supporting the economy, while 40 per cent of low income groups are not participating in the economy. Eighty per cent of the economy are earning RM3,000 and below monthly. Hence, we need to advance the economy," Norma noted.

To boost growth, everyone must be involved in the economy, she said. Under the NEM, Malaysians are expected to benefit from a competitive economy and a better way of life.

Norma said the NEAC was currently getting feedback on its "big push" to boost transformation and growth through eight Strategic Reform Initiatives (SRIs) under the NEM.

The eight areas are re-energising the private sector; developing quality workforce and reducing dependency on foreign labour; creating a competitive domestic economy; strengthening the public sector; transparent and market friendly affirmative action; building the knowledge base infrastructure; enhancing the sources of growth; and ensuring sustainability of growth.

The proposals from the NEAC for the NEM generally call for the income of 40 per cent of the population who earn less than RM1,500 a month to be lifted through various policy changes that aim to transform the structure of the economy.

The ultimate goal is to lift Gross Domestic Product per capita from US\$7,000 to US\$15,000 within the next 10 years.

Amirsham said the SRIs would identify industries which had better chance of success, with preference given to industries that could create high value in the economy. For example, companies which focused on innovation, would be invited to contribute to the economy.

He said one sector with potential for higher returns, was palm oil. He cited an example where 60 per cent of Malaysia's exports of the commodity went to China, but China-based companies were buying palm oil here and turning them into high value added products, earning 20 per cent profit margin.

"On the other hand, Malaysian companies are contented with only selling palm oil, fetching a price of RM2,500 to RM3,000 per tonne. Hence, you need traders to be back into the system," he said.

By the third quarter, the NEAC would come out with the specific details on the eight Strategic Reform Initiatives they have proposed to the government.

Amirsham had said earlier the new recommendations would come in after the 10th Malaysia Plan is announced but it would be before the tabling of Budget 2011.

- Bernama

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