

New Economic Model

Quantum leap in 10 years

by Tim Leonard
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KUALA LUMPUR: Prime Minister Datuk Seri Najib Abdul Razak yesterday unveiled the long-awaited New Economic Model (NEM), which lays out broad economic reforms to transform the country into a high-income nation by 2020.

The NEM effectively replaces the New Economic Policy (NEP) which was introduced by Najib's late father Tun Abdul Razak Hussein, the second prime minister of Malaysia in the wake of race riots in the 1960s.

While he gave tribute to the achievements of the NEP, Najib said the NEM represented a "new way of doing things" based on three principles - high-income, sustainability and inclusiveness.

The NEM will be followed by an Economic Transformation Programme roadmap that will be ready in three months, which will lay out the detailed plans needed to achieve the objectives laid out in the NEM.

Najib also announced the setting up of a special Economic Delivery Unit to spearhead the reform process and the implementation of the NEM, as well as to choose economic activities that will be declared as National Key Economic Activities.

In his keynote address at the Invest Malaysia 2010 conference, Najib said rent-seeking and patronage which tarnished the altruistic aims of the NEP will not be tolerated in the NEM.

"We must also recognise that some policies which served a purpose in a previous era may now be impediments to success, distorting the market and putting us at a competitive disadvantage," he said.

"Don't be fooled by calls to protect the status quo. Old ways cannot be continued," Najib said. "For too long the implementation of our affirmative action policies has not reached those who need them the most"

He had this to say:

On high-income:

We want to see a Malaysia that makes a quantum leap from the current US\$7,000 (RM23,345) annual per capita income to US\$15,000 (RM50,025) in 10 years.

The new economic model must be built from here. It will be no easy task, but the rewards will be great if we make this transformation.

The challenge is how we will do it, and this means building on existing sectors and maximising the potential of new ones through innovation.

On sustainability:

The NEM must include a commitment to sustainability, not only in our economic activities, but in considering the impact of economic development on our environment and precious natural resources.

There is little value in pursuing a future based entirely on wealth creation. Pursuing growth that depletes resources and displaces communities will have dire consequences

for future generations.

Not only do I want the *rakyat* to earn better, but they must also live better. Raising the quality of life must be an integral part of the NEM.

On inclusiveness:

The government will help all poor Malaysians regardless of race. Affirmative action will take into consideration all ethnic groups fairly and equally as long as they are in the low income 40% of households, of which 77.2% comprise bumiputra households, including those in Sabah and Sarawak.

The ultimate goal in time is that no Malaysian lives in poverty, and all get the chance to succeed and share in prosperity.

Affirmative action will be market-friendly, merit-based, transparent and needs-based.

While perfect equality is in reality impossible to achieve in an open, global economy, an inclusive society will ensure that we can narrow inequalities in our nation.

Najib said the NEM will be integrated into the 10th Malaysia Plan and with a longer-term vision that will be delivered through the 11th Malaysia Plan.

"As a metaphor, think of a house under the Malaysian sun. We need a roof - an overarching philosophy that encompasses all parts of the building. In our case, Malaysia is the roof that we gather under. The Government Transformation Programme is one pillar ... the second pillar is the Economic Transformation Plan that will deliver the New Economic Plan," he said.

The NEM report and recommendations were drawn up by the National Economic Advisory Council (NEAC) headed by Tan Sri Amirsham A. Aziz who on Monday handed it to Najib.

Other members of the council include Universiti Sains Malaysia vice-chancellor Prof Tan Sri Dzulkipli Abdul Razak, Innovation Associates CEO Datuk Dr Hamzah Kassim, World Bank senior adviser Dr Yukon Huang, World Bank East Asia chief economist Dr Homi J. Kliaras, Institute for Strategic and International Studies Malaysia director-general Datuk Dr Mahani Zainal Abidin, London School of Economics head of department Dr Danny Quah, chief adviser to the China Banking Regulatory Commission Datuk Seri Panglima Andrew Sheng, economist Datuk Dr Zainal Aznam Yusof, America-Malaysia Chamber of Commerce past president Datuk Nicholas S. Zefferys and NEAC head secretary Prof Norma Mansor.

Najib said it was important to have a government that empowers the private sector as well as a public sector that is more responsive and accountable to the needs of private citizens and businesses.

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Economic development under the NEM

Old approach

1. Growth primarily through capital accumulation. Focus on investment in production and physical infrastructure in combination with low-skilled labour for low value added exports

2. Dominant state participation in the economy. Large direct public investment (including through GLCs) in selected economic sectors

3. Centralised strategic planning. Guidance and approval for economic decisions from federal authorities

4. Balanced regional growth. Disperse economic activities across states to spread benefits from development

5. Favour specific industries and firms. Grant preferential treatment in the form of incentives and financing to selected entities

6. Export dependence on G-3 (US, Europe and Japan) markets. Part of production chain to supply consumer goods and components to traditional markets

7. Restrictions on foreign skilled workers. Fear that foreign talent will displace local workers

New approach

Growth through productivity. Focus on innovative processes and cutting-edge technology, supported by healthy level of private investment and talent, for high value added goods and services

Private sector-led growth. Promote competition across and within sectors to revive private investment and market dynamism

Localised autonomy in decision making. Empower state and local authorities to develop and support growth initiatives, and encourage competition between localities

Cluster- and corridor-based economic activities. Concentration of economic activities for economies of scale and better provision of supporting services

Favour technologically capable industries and firms. Grant incentives to support innovation and risk-taking to enable entrepreneurs to develop higher value added products and services

Asian and Middle East orientation. Develop and integrate actively into regional production and financial networks to leverage on flow of investment, trade and ideas

Retain and attract skilled professionals. Embrace talent, both local and foreign, needed to spur an innovative, high value added economy

New way of doing business

by Tan Yi Liang
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PETALING JAYA: The New Economic Model report launched yesterday by Prime Minister Datuk Seri Najib Abdul Razak lays out the principles that will form the "big push" to propel Malaysia forward to make a quantum leap in its per capita income from the present US\$7,000 (RM23,345) to US\$15,000 (RM50,025).

This is reflected in the 160-page report and 31-page Executive Summary prepared by the National Economic Advisory Council (NEAC) led by Tan Sri Amirsham Abdul Aziz, which aims to forge "a new way of doing business" in Malaysia to create a high-income economy and address the economic slowdown following the 1997 global recession.



"A New Economic Model is required as a catalyst to transform the economy and its attending institutions. Vision 2020 with a new economic model is not possible without a transformation of the economy, supporting policies and effective delivery of government mandates," it said, (see graphics).

The government will embark on initiatives to attract tourists from Europe and the Americas.



The report added that the goal of the NEM, which will be integrated into the 10th Malaysia Plan, is to create an economy that is market-led, well-governed, regionally integrated, entrepreneurial and innovative.

While not completely abandoning affirmative action, the NEM's policy will be built on the principles that it must be market-friendly, merit-based, transparent and needs-based.

The report also suggested that focus be placed on the bottom 40% of Malaysia's income strata, both individually and regionally.

This is laid out in the report which states the principles behind the NEM, with an Economic Transformation Programme waiting in the wings to be unveiled in a few months, pending consultation with all relevant stakeholders.

The report lays out eight Strategic Reform Initiatives:

- » **Re-energising** the private sector to lead growth;
- » **Developing** a quality workforce and reducing dependency on foreign labour;
- » **Creating** a competitive domestic economy;
- » **Strengthening** the public sector;
- » **Putting** in place transparent and market-friendly affirmative action;
- » **Building** knowledge-based infrastructure;
- » **Enhancing** sources of growth; and
- » **Ensuring** sustainability of growth.

The report said, however, that not all initiatives will be introduced at once.

"Due to the cross-cutting nature of the Strategic Reform Initiatives, the sequencing of policy actions is crucial to achieving impact and results. Some policy actions could be immediately implemented; others may be introduced at a later date because they require a longer preparation period," it said.