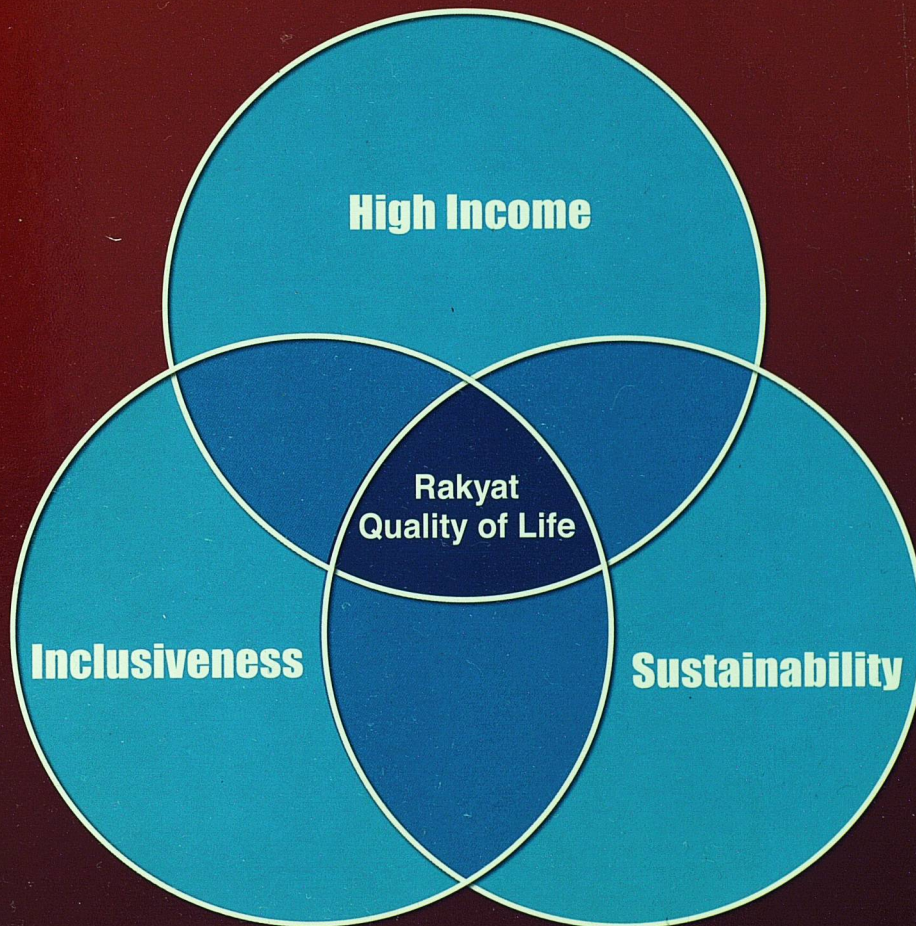




# NEW ECONOMIC MODEL FOR MALAYSIA

## PART 1



NATIONAL ECONOMIC ADVISORY COUNCIL

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TUN DR. MAHATHIR MOHAMAD



**NEAC**

NATIONAL ECONOMIC ADVISORY COUNCIL

# **NEW ECONOMIC MODEL FOR MALAYSIA**

## **Part I: Strategic Policy Directions**

PUSTAKA PERDANA



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# Preface

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This report is the first of two documents by the National Economic Advisory Council (NEAC) on the New Economic Model (NEM). This report presents an overall framework of the NEM for transforming Malaysia from a middle income to an advanced nation by 2020. It was developed following a series of meetings of the NEAC beginning in 2009 and consultations with stakeholders in the business sector, government, labour unions, academia and others. It is intended that this report will serve as the basis for formulating the policy measures and the implementation plan in the final document that follows.

The independent work of the NEAC is an important component of the government's 1Malaysia concept and programme. The NEM will define the Strategic Reform Initiatives (SRIs) that will propel Malaysia to the goals first set forth in Vision 2020. In the Budget 2010 Speech in October 2009, the Prime Minister and Minister of Finance, YAB Dato' Sri Mohd. Najib Tun Abdul Razak, emphasised high-skilled human capital, efficient public services, a reinvigorated private sector and equal opportunity for all Malaysians. The NEAC embraces these themes in the NEM.

The rest of the report is structured as follows.

**Chapter 1: Why Do We Need the NEM and What Are Its Goals?** briefly presents the goals and characteristics of the NEM. It also touches on the enabling actions and the bold policy measures underlying the Strategic Reform initiatives (SRIs) of the Economic Transformation Programme (ETP) to deliver the goals of the NEM.

**Chapter 2: Where Are We?** sets forth Malaysia's current position and the challenges we face going forward. In the aftermath of the Asian financial crisis the country has posted mediocre and subdued growth recovery, mainly attributed to low and stagnant private investment. While the export sector is an important growth driver, outputs are mainly low value added, reflecting a lack of innovation, a low-skilled labour force, and conditions that constrain business development. Commodities, which have benefited from price increases during the last half-decade, form the bulk of the remaining exports.

**Chapter 3: What Is Happening Around Us?** focusses on the much more challenging environment within which Malaysia must manage its affairs, in particular its economic management. The global landscape is changing with leading countries exhibiting a new set of distinguishing characteristics; governments responding more rapidly to

economic pressures; environmental issues driving policy considerations and competitive advantages; profits and productivity being driven by openness and leveraging networks; and human capital advancing and flowing between global markets more readily.

**Chapter 4: Which Advantages Do We Have?** highlights some of the strengths that have contributed towards Malaysia's past successes and new ones that it can leverage to meet its present challenges. The country's advantages include its diverse population, rich biodiversity and resources, strategic location in a high growth region, a well-established manufacturing base and an attractive standard of living in urban areas.

**Chapter 5: Where Do We Want To Be?** describes in detail the main objectives of the New Economic Model. Malaysia wants to be a developed and competitive economy whose people enjoy a high quality of life having attained a high level of income which is the result of growth that is both inclusive and sustainable by 2020.

**Chapter 6: How Do We Get There?** sets forth the transformation journey for the economy; the policy measures, institutional and regulatory reforms to reshape the incentive structures to deliver the eventual outcomes. This will require political leadership to effect the necessary push anchored by a set of strategic policy initiatives.

Finally, **Chapter 7: The Time for Change Is Now – Malaysia Deserves No Less** outlines the next steps with regard to the development of specific measures for the ETP.

# Message from the NEAC

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The National Economic Advisory Council (NEAC) was inaugurated by the Prime Minister of Malaysia with a specific mandate to formulate a New Economic Model (NEM) that will drive Malaysia's transformation into an advanced nation by 2020.

The task is challenging but vitally necessary and urgent. Two decades have passed since Vision 2020 was launched in 1991. Malaysia is today at a crossroads. The country has come far; it is prosperous and living standards for its people are high. But Malaysia has much further still to go this next decade before it can be an advanced nation with high income, launched onto a path of inclusive and sustainable economic growth.

Achieving this goal requires speedy removal of multiple barriers that have weighed on Malaysia's growth potential. For some time now, the economy could not grow at its fullest potential. It is time to dismantle the barriers and unleash the power for Malaysia to zoom ahead. The only way this can happen is with a bold approach that is nothing less than a major overhaul –

incremental tweaks here and there just will not work. With regard to this, the NEAC is honoured to have been given the mandate to provide fresh ideas and directions to transform Malaysia in a meaningful, far reaching and attainable way.

In reaching our recommendations, the NEAC has analysed Malaysia's core economic issues. It has discussed those extensively with stakeholders, ranging from business leaders and government officials to civil society groups and academia. The NEAC wishes to express its thanks to all who contributed to the ideas here.

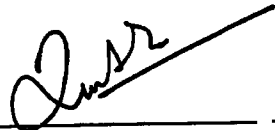
The NEAC's work does not stop with the publication of the report. Much more needs to be done. Input and feedback are needed on the practical issues facing this formidable transformational process. With support and help from all, Malaysia will have begun the next leg of its journey to become an advanced nation. In the next few months, a strategic implementation plan complete with specific policy measures will be announced, after further consultations with all stakeholders.

**30 MARCH 2010**



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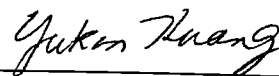
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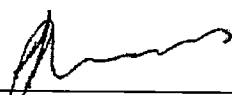
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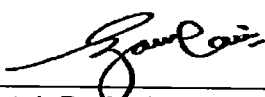
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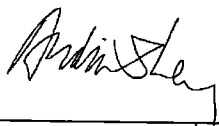
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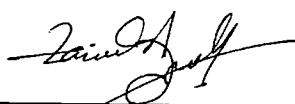
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# Glossary of acronyms

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<b>APEX</b>	Accelerated programme for excellence
<b>ASEAN</b>	Association of South East Asian Nations
<b>BNM</b>	Bank Negara Malaysia
<b>DDI</b>	Domestic direct investment
<b>EDMC</b>	Energy Data and Modelling Centre, Japan Institute of Energy Economics
<b>E&amp;E</b>	Electrical and electronics
<b>EPF</b>	Employees Provident Fund
<b>EPU</b>	Economic Planning Unit
<b>ETP</b>	Economic Transformation Programme
<b>FDI</b>	Foreign direct investment
<b>FPI</b>	Foreign portfolio investment
<b>FTA</b>	Free trade agreement
<b>GDP</b>	Gross domestic product
<b>GLC</b>	Government-linked company
<b>GNI</b>	Gross national income
<b>GNP</b>	Gross national product
<b>GST</b>	Goods and Services Tax
<b>GTP</b>	Government Transformation Programme
<b>ICT</b>	Information and communication technology
<b>IPR</b>	Intellectual property rights
<b>ITRI</b>	Industrial Technology Research Institute, Taiwan
<b>KPI</b>	Key performance indicator
<b>KRIS</b>	Khazanah Research and Investment Strategy
<b>MDI</b>	Malaysian Development Institute
<b>MIDA</b>	Malaysian Industrial Development Authority
<b>MNC</b>	Multi-national corporation
<b>MOE</b>	Ministry of Education
<b>MOHE</b>	Ministry of Higher Education
<b>MPC</b>	Malaysia Productivity Corporation
<b>NEAC</b>	National Economic Advisory Council



<b>NEM</b>	New Economic Model
<b>NEP</b>	New Economic Policy
<b>NKRA</b>	National Key Result Areas
<b>OECD</b>	Organisation of Economic Cooperation and Development
<b>OEM</b>	Original equipment manufacturing
<b>PEMANDU</b>	Performance Management and Delivery Unit
<b>R&amp;D</b>	Research and development
<b>SME</b>	Small and medium enterprise
<b>SPM</b>	Sijil Pelajaran Malaysia
<b>SRI</b>	Strategic Reform Initiative
<b>TFP</b>	Total factor productivity
<b>UNEP</b>	United Nations Environment Programme
<b>WDI</b>	World Development Indicators

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