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Title : **'NEW ECONOMIC MODEL FOR MALAYSIA - THE CONCLUDING PART'**

1. Many of you will recall that I launched Part 1 of the New Economic Model report on the 30th of March this year. In this first part of the NEM, I laid out a new course that Malaysia is now taking, based on inputs from the NEAC and others, which will allow us to achieve our aspiration of becoming a high-income nation with an economy that is both inclusive and sustainable by the year 2020.

2. I am pleased to report that the broad direction for economic policy from the NEM has by and large been incorporated into government policy under the 10th Malaysia Plan, and implementation has begun through the Economic Transformation Programme. Today's launch of the Concluding Part of the NEM report represents a significant milestone, as it completes the roadmap of the Economic Transformation Programme.

3. Launched last month, the Economic Transformation Programme was designed as a two-component approach to achieving the economic growth targets of the New Economic Model. The first component, the National Key Economic Areas, an effort to identify, prioritise and align support for the key sectors and major projects that will drive quantifiable economic growth is already moving forward. The second component, a set of Strategic Reform Initiatives (SRIs) designed to remove blockages to growth, is what I am here to discuss today.

Ladies and gentlemen,

4. In this journey to become an advanced nation, the ETP's growth drivers, if I may use as an analogy, are the cars while the NEM is the highway which is free from impediments. One cannot succeed without the other.

5. I would like to take this opportunity to congratulate the NEAC

on completing this arduous task that I mandated a year and a half ago. By setting up the NEAC, staffed by eminent economists in their personal capacities, the independence of their assessment of the nation's economy has been assured. I thank them, again, for the candid assessment shared in their first report.

6. The NEAC's economic assessment has identified many areas where improvements must be made if Malaysia is to escape the middle income trap. Most of these issues are known to the government. Piecemeal attempts to address them have proven ineffective; hence the need for a concerted, holistic effort as represented by the Government Transformation Programme (GTP) and the Economic Transformation Programme (ETP).

7. The frank economic assessment by the NEAC has highlighted improvements required for this nation to make a quantum leap into the future. Their report clearly lays out a case for a burning platform, in spite of the fact that everything on the surface may seem fine. For example, consider these nine areas of concern:

- Malaysia's economic growth engine has gradually been slowing, even before the global economic crisis in 2008.
- The growth in private investment has slowed over the last decade.
- Our outdated business regulations and rules have not created an environment conducive to attracting investment.
- Many of our manufacturing businesses remain inward-looking and are using the low-cost business model that Malaysia had been known for in the past, and there is a distinct lack of drive and incentives to move up the technological ladder.
- The dismal level of investment in innovation and R&D falls far short of the amount required for a country aspiring to become an advanced nation.

In the area of human capital:

- Management practices related to human resources are outdated, which has led to issues in developing and retaining talent.
- Our labour market is not functioning very well, which is impeding productivity growth. As a result, many people are stuck in low-skill jobs that pay low wages.

Two additional factors:

- Controlled pricing systems and subsidies have led to misallocation of resources and inefficiencies that have resulted in unwarranted wastages, and
- Our distribution policies, although successful in lifting many out of poverty, have created implementation issues in the form of rent-seekers.

Ladies and gentlemen,

8. The list goes on. The NEAC's report reminds us that we have our work cut out for us on our journey to become an advanced nation.

9. Fortunately, in spite of the recent global crisis, our economy remains robust and resilient. I am heartened that the economy has rebounded, achieving 8.1 per cent growth in the first three quarters of the year. For the full year, we expect to exceed our 6 per cent annual growth target.

10. I have been cautioned, however, that growth of 6 per cent is the bare minimum average required to meet our goal to become a high-income nation. Unfortunately, there is much uncertainty in the global economic recovery, and that is bound to affect a small, open and trade-reliant country like Malaysia.

Ladies and gentlemen,

11. We also note that the pace of growth is slowing once again, as signs of weakening are emerging in external conditions. The economy grew 10.1 per cent in the first quarter and 8.9 per cent in the second quarter, but only 5.3 per cent in the third quarter.

12. We need to be in a position to counter the cyclical performance of world markets. To do this, we must maintain growth levels in excess of 6 per cent, so we can build up reserves to buffer the inevitable underperforming years.

13. It will take quite some time before the advanced economies, many of which are the main destinations for Malaysia's exports, can once again achieve the growth rates they had before the crisis.

14. Clearly, the advanced economies are being challenged by economic conditions, so they will grow at a slower rate in the near future. It would be naïve of us to think otherwise. Going forward, competition for trade and investments will only get more intense regionally and among developing countries around the world. Most, if not all, countries are revisiting their growth strategies and are

getting their economic houses in order, just as we are doing with the GTP and ETP.

15. We must be prepared to face this increasingly competitive environment head-on. Competition, as the adage goes, is both about threats and opportunities. The importance of economic restructuring, as advocated by the NEM, cannot be stressed enough – as it will chart a new era of economic advancement.

Ladies and gentlemen,

16. The NEM will help us create a high-income nation that is sustainable and inclusive. Put more simply, our goal is to make Malaysia a prosperous country, that benefits everyone, now and for future generations.

17. The NEM won't be an overnight panacea that can solve all issues, however. It represents a journey that all of us - the Government, the private sector and the *Rakyat* - must undertake together. This is a national agenda and, as such, there is a role for each of us to play. To opt out would only result in this nation languishing and falling behind our regional counterparts. We must all focus on the goal of becoming the high-income, sustainable and inclusive nation that we aspire to be.

18. The NEM is very clear about what we need to do. It spells out the key policy areas we must address in the form of eight Strategic Reform Initiatives, or SRIs. They will help us remove impediments and barriers that hold the economy back from reaching its full potential.

19. It is important to note that the Strategic Reform Initiatives are cross-cutting in nature, so their impact will be felt across all economic sectors. The Strategic Reform Initiatives deal with foundational economic issues that must be addressed to drive economic growth and transformation. As such, they must be implemented consistently and holistically to ensure the results envisioned in the 10th Malaysia Plan and the NKEAs are achievable. Earlier, I made the analogy of being able to drive at full speed toward our destination when the highway is free of impediments and barriers.

Ladies and Gentlemen,

20. The required economic transformation is premised on a simple strategic framework that must address both growth and inclusiveness. There are four key thrusts. The first three deal with the need to accelerate growth while the fourth focuses on inclusiveness

and social cohesion. Let me talk about each in turn.

21. The first NEM thrust involves the creation of a competitive, sustainable and innovative environment that will reinvigorate private investment. The related policy measures recommended by the NEAC address the following:

- The importance of continuing a managed liberalization programme. This will help attract inbound investment and encourage domestic firms to compete on an international basis.
- The need for Malaysian companies to penetrate global markets and adopt international standards and best practices in terms of quality and sustainability to ensure they are competitive internationally. For a start, these standards should be made applicable to goods and services in the domestic market.
- The need to create an innovative and creative culture. This requires strengthening the ecosystem to foster entrepreneurship and risk-taking, which necessitates a revamp of our current insolvency laws to be more accommodative. There must also be a concerted effort by the Government, GLC's and the private sector to support homegrown products and services that are innovative.

22. The second NEM thrust addresses the need to develop a conducive workplace and quality workforce. Policies relating to creating a workplace conducive to development entail the following elements:

- Setting up an expert group to modernize and align labour legislation and regulation, so they are consistent with international standards and best practices. They have the dual objectives of reducing costs of labour management for businesses and increasing the effectiveness of worker protection