

New economy model and tenth malaysia plan



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The global scenery has evolved dramatically pace over the past decade, the economies are grappling to find elusive way to reascent or even prosper. As an instance, in Malaysia; they attempted some principles such as capital control to rise from financial crisis. However, this formula used to drive Malaysia's success in the past no longer applies in today's environment. The increasing competitiveness of neighboring ASEAN countries and globalization made Malaysia needs to step up to next stage, thus the development of the country to be able to move ahead of the competition.

In order to overcome this situation, Prime Minister Najib asked the National Economic Advisory Council (NEAC) to come up with the new strategy called New Economic Model for the country. This strategy has come up with the intention to provide an independent perspective in transforming Malaysia from a middle income economy to a high income economy by 2020, bridging the gap between public and private sectors, create a new public-private partnership, intensify regional cooperation and increase global competitiveness. In this strategy, Prime Minister Najib introduced this strategy as a clarion call: "1Malaysia, People First, Performance Now". The goal of the New Economy Model, according to Najib, is to "transform the Malaysian economy to become one with high incomes and quality growth" by 2020. Afterwards, the first part of overall framework of New Economic Model was unveiled on 30 March 2010 by Prime Minister Najib. The keys to the plan as described by Najib are "high income, sustainability and inclusiveness". Besides, the second part of the report will be presented together with 10th Malaysia Plan & Malaysian Government Budget Proposal in October 2010. (tambahin intro bagian diaz)

Overall framework of the New Economic Model (NEM)

Malaysia has reached a defining moment in its development path. Vision 2020 is not possible without all of economic, social and government transformation. To move the country forward, the government has amended a framework comprising four pillars to drive change; whereas the New Economic Model is one of the pillars. The NEM is suggested by Prime Minister Najib and was welcomed by the MCA as guidance to transform Malaysia from middle income to an advanced income nation by 2020. It was developed by the National Economic Advisory Council (NEAC) through a series of meetings from beginning of 2009 and consultations with stakeholders in the business sector, government, labor unions, academia and others. The NEM would be achieved through an Economic Transformation Program (ETP) which constitutes a key pillar which will drive Malaysia to be an advanced country with inclusiveness and sustainability in line with the goals set forth in Vision 2020. Besides, Government believed that The NEM would expect to be the basis on the values of: innovation, creativity, high value of sources of growth, modern services sector and lastly skilled manpowered.

According to NEAC (2010), the recommendations will be attached to the following eight Strategic Reform Initiatives (SRIs). The eight Strategic Reform Initiatives (SRIs) are: re-energizing the private sector, developing a quality workforce and reducing dependency on foreign work labour, creating a competitive domestic economy, strengthening the public sector, transparent and market-friendly affirmative action, building the knowledge base and infrastructure, enhancing the sources of growth, and ensuring the sustainability of growth.

Setting the principles should guide the nation's thinking and the development of The New Economic Model (NEM). (Najib, 2010) The principles are:

High income

Sustainability

Inclusiveness

Market friendly

Merit based

Transparent

Need based

However, there are only three of them that government focus on; they are high income, sustainability and inclusiveness. NEAC believed these three principles will make Malaysia's economic progress and become a fully developed country; a competitive economy strategically positioned in the regional and global economic landscape and environmentally sustainable

High income

“ Will the New Economic Model create high income jobs where the Rakyat benefit from a competitive economy, and a better way of life?” (Najib, 2010)

This is why the reason of existence of the NEM. Government look forward to see a Malaysia makes a quantum leap from the current USD7, 000 per capita annual income to USD15, 000 in 10 years as stated in the report. The NEM

must be built today before it will be difficult. Nevertheless, the gain will be great if this transformation is success. The challenge of this new economic model is how people will apply it. This means building upon existing sectors and maximizing the potential of new ones through innovation.

Creating a high income nation means increase the wages throughout the economy as growth is derived not only from capital, but also from greater productivity through the use of skills and innovation, improved coordination, stronger branding and compliance with international standards and intellectual property rights. In this circumstance, investment in new technology, multi skills, innovation and creativity, and increased competency are the drivers of public and private sector performance. Government expects that the investment and competition for the best talent can be done by paying higher wages. By hiring more skills, government expect can get greater responsibility and better, higher paying jobs.

Moreover, in the NEAC report highlights; it showed that nowadays there is only 80 percent of the workforces have education up to SPM qualifications. This is not appropriate with a high income economy that government aspire to be. Government has to continue the education program, on-the-job training and re-skilling in order to benefit from new technologies. And by building a highly skilled workforce, probably the productivity and competitiveness drive growth, the costs of doing business will still be competitive as capital is used more efficiently and with emphasis on quality of workers. In other words, according to Dr Chua (2010), by reducing dependency on unskilled foreign labor and greater attention to multi-skilling of employees is hoped can increase productivity. This change will also

require that the Government raises the quality and productivity of its own workforce. Lastly, this first principle is believed that the economic model have begun along this path with the Government Transformation Program, amongst others, which will enhance the nation's infrastructure and improve access to quality education.

Sustainability

Another important thing is that the new economic model must have a commitment to the concept of sustainability; this means that government must keep in mind the preservation of environment and natural resources. It would not be worth it to pursue a future that is only based on wealth creation; the idea is to be responsible for the future generations that will inherit the country. However to target both wealth creation and sustainability together is actually achievable and can sometimes go hand-in-hand. Sometimes prioritizing the environment is only a small manageable part that does not need to sacrifice a lot of wealth creation. Therefore in this case the principle must always be prioritized for the citizens, as in earning better and having higher living standards.

Inclusiveness

The Inclusiveness principle means that in the effort to achieve the New Economic Model, the process must try to allow and appreciate contributions from everyone and for everyone, and not to leave any parties out of the whole cycle of progress. Even though perfect equality in this sense is impossible, the government must still try their best to minimize the defection. The idea is to create a fair competitive economy that is for the benefit of everyone, in this sense it is for the greater good of the majority.

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While this can sometimes hinder the pace of economic progress due to some opposing parties of the policy in the economy; the new economic policy is one that is intended for long-term growth and therefore it is a worthy sacrifice.

10th Malaysia Plan

The 10th Malaysia Plan is made in purpose to complement the New Economic Model that has been announced on March 30. This platform focus on improving key areas such as education, healthcare, environment, labor, public utilities, security and welfare. Originally, the 10th Malaysia Plan is a plan which has been drawn out by the Malaysian government with the intention to bring Malaysia to greater heights in the future. Transforming the country towards achieving Vision 2020 requires a holistic and focused approach. This Plan is based on 10 ideas, which have been translated into 10 Main Premises as follows:

Internally Driven, Externally Aware

Leveraging On Our Diversity Internationally

Transforming To High Income Through Specialization

Unleashing Productivity Led-Growth And Innovation

Nurturing, Attracting And Retaining Top Talent

Ensuring Equality Of Opportunities And Safeguarding The Vulnerable

Concentrated Growth, Inclusive Development

Supporting Effective And Smart Partnerships

Valuing Our Environmental Endowments

Government As A Competitive Corporation

To achieve the aspirations of the 10th Malaysia Plan, five key strategic thrusts have been identified. These thrusts are holistic and comprehensive strategies to achieve the objectives and targets set in the 10th Malaysia Plan. The five thrusts are as follows:

Designing Government philosophy and approach to transform Malaysia using NKRA methodology;

Creating a conducive environment for unleashing economic growth;

Moving towards inclusive socio-economic development;

Developing and retaining a first-world talent base; and

Building an environment that enhances quality of life.

The transformation of the nation requires the transformation of the Government machinery to support changes in the economic landscape. To emerge as a competitive nation at the global level, the Government needs to increase the act as a competitive corporation. For example, when government pursuing the aspiration to become an advanced and high income country in instead of that, the Government must implement transformational measures. For these reasons, the Government will uphold four main pillars. These four main pillars are supported by 4 complementary

values, which are acculturation of creativity and innovation, emphasis on speed of decision-making and execution, value for money; and lastly integrity values.

Furthermore, the Government's transformation measures which are currently being undertaken began with the implementation of the six national key result areas called NKRA. Through the NKRA, the Government tried to reduce crime, fight corruption, improve student outcomes, raise living standards of low income households, and improve rural basic infrastructure and urban public transport. The consultative approach with the public and private sectors as well as the non-government organizations (NGO) has been adopted to ensure that the wants and needs of people are taken into account. Afterwards, the Government will focus on putting efforts to develop non-physical infrastructure, including human capital development such as skills development and strong innovation capabilities. Meanwhile, the 10th Malaysia Plan allocation for non-physical infrastructure will be increased to 40 per cent, compared with 21.8 per cent in the 9th Malaysia Plan. Focus will be given to skills development programs, reach and development activities and venture capital funding geared towards promoting a higher level of innovation in the country.

This approach is also in line with efforts to encourage the private sector to invest in physical infrastructure and provide services such as skills training. To support this objective, the Government will shift its focus to the private sector for procurement of services. This means that the private sector will compete to offer skills training services at competitive costs.

Impact of New Economy Model and 10th Malaysia Plan

There are still many gaps to fill from the previous Model. With the new model, it's expected to give positive impact into few sectors.

Environmental Performance

Previous Model was failed from the Environmental aspect. This new model has been constructed to fix the issue by the recent establishment of the ministry of Green Technology, Energy and Water followed by the Green Technology Policy and the Renewable Energy Policy & Action Plan blue print. However an improvement in clean and renewable energy performance will not see a parallel improvement in overall quality of life for all citizens if other aspects of the environment performance are neglected. An example is the execution of projects that may caused serious and long term environmental impact on the natural environment comprising of fragile eco-systems and the Orang Asli who live within these habitats.

Citizen Participation in Civil Service

Ethnic-based civil service is a result of non-participation of other races which is compounded by the perceived intolerance of other ethnic groups within the civil service sector.

This is a misperception because the door to civil service is always open to all suitably qualified citizens of Malaysia. This includes the Police Force, the Armed Force etc.

Education

In the new model, Government was expected to put more effort to encourage and ensure that children's attendance in preschools be increased

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from 67% to 87% in 2012. In Malaysia, equal educational opportunity is the right of every child, regardless of ethnic background, socioeconomic status of parents and level of intelligence or residential location.

Government expected to allocate more money to educational sector to enhance better quality.

The 10th Malaysia Plan another part of Wawasan 2020 plan, the goal is to transform Malaysia into Economic giant and become high-income nation. This is a 5 years development project that will be started on 2011 to 2015.

The Government has restated in no uncertain terms that it needs to implement the various measures which recently introduced as an integral package of economic restructuring and transformation. These measures include the Government Restructuring Plan launched in January and the New Economy Model launched in March. In this regard, one of the views of the 10th Malaysia Plan is to promote innovation and creativity through upgrading the human capital, adopting emerging technology and encouraging entrepreneurship. However, this is clearly not a simple task, since Malaysia is currently having a shortage of skilled workers; furthermore, I fear that our declining quality of education is a shot to our own feet in the face of the daunting challenges ahead.

In order to defence the economy against the impact of changes in the world at large, the 10th Malaysia Plan has in particular highlighted the importance of promoting domestic demands as the main engine of our economic growth in the future. The Government will try to revitalise the private sector to achieve the goal stated above, as outlined in one of the strategic

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restructuring measures of the New Economy Model. With this, the 10th Malaysia Plan will seek to create an enabling environment to encourage productivity, competitiveness and creativity.

Although domestic demand is very important and will be a relatively stable source of stimulus of our economic growth, the plain fact is, our domestic market is simply not big enough to sustain a robust growth. This reality check underscores the monumental challenge our government will face in its bid to achieve the 6% annual growth in our economy according to the 10th Malaysia Plan.

Doubt Over Ability To Achieve Goals Effectively

In fact, Malaysia has not been able to meet the annual economic growth targets set out in the past three Malaysia Plans. We can, of course, reason that our failure to meet the targeted growth rates during the 7th (1996-2000), 8th (2001 - 2005) and 9th (2006 - 2010) Malaysia Plans were due respectively to external factors such as the 1997/98 Asian financial crisis, the IT and Internet bubble of 2001, and the 2008/09 U. S. subprime mortgage crisis and the ensuing global financial crisis. However, perhaps we should reflect on whether our own failure to effectively implement the various goals and measures set out in the Malaysia Plans and promote private investments are the major contributing factors to our botched Malaysia Plans.

Under the 8th Malaysia Plan, the average annual private investment grew by only a mere 1.2%, while under the current 9th Malaysia Plan which is ending soon, the same figure is expected to reach 2% only. During the 7th Malaysia Plan, which coincided with the Asian financial crisis, private investment

shrunk by a yearly average of about 5% over the 5-year period. In contrast, under the 5th Malaysia Plan (1986-1990) and the 6th Malaysia Plan (1991-1995), private investments chalked impressive annual average growth rates of 13.4% and 20.2% respectively.

For this reason, the weightage of private investment in Malaysia's GDP plunged from the peak of 36.3% in 1997 to merely 8.2% in 2002, only to rebound in 2009 to 10.1%.

Declining private investment may be the major contributing factor to the drawn-out decline in Malaysia's economic growth rate. During the 6th Malaysia Plan, our average annual economic growth rate was an impressive 9.5%; by the 7th Malaysia Plan, this figure plummeted to 5%, receding almost by half.

By the 8th Malaysia Plan, the average annual growth rate fell further to 4.7%, while during the latest 9th Malaysia Plan, the estimated average annual growth rate reads a mere 4.2%. If the Government had not taken a big-spending policy during the past few economic crises by implementing a more expansionary fiscal policy and serving out a series of economic stimulus packages to dampen the negative impact to our economy, the growth figures for the past three Malaysian Plans may be even lower.

Although the government had been increasing public spending over these periods, it could not reverse the southward spiral of our actual economic growth rate. This also goes to show that the Government's public expenditure alone cannot reverse the worrisome trend of slow economic growth, though it did retard the slump somewhat. Furthermore, due to <https://assignbuster.com/new-economy-model-and-tenth-malaysia-plan/>

loopholes in its execution, our government's public expenditure is seen as ineffectual in promoting economic growth.

Difficult To Promote Private Investments

Even though the authoritative Swiss International Institute for Management (IMD) announced that Malaysia's ranking jumped from No. 18 previously to No. 10 in the recently published 2010 ranking of international competitiveness, an unprecedented great leap forward notwithstanding, I feel that Malaysia's push to encourage private investments is still an uphill task, considering the intense competition between countries to attract foreign direct investments and the increasing amount local funds investing overseas. Therefore, the Government's plan to grow private investments at an annual rate of 12.8% is too ambitious and too optimistic.

Having said that, I must quantify that the various efforts by the Government thus far had helped Malaysia regain a number of disadvantages to successfully rope in some private investments. If you could recall, soon after taking office, Prime Minister Najib Razak announced on April 22, 2009 the opening up of 27 second-tier fields of the service industry to stimulate private investments. In addition, Najib also abolished the Foreign Investment Commission Ordinance, and announced on June 30, 2009 a further relaxation of the policy that stipulated a 30% bumiputran shares ownership quota for all IPOs of newly-listed companies.

In addition, the relationship between Malaysia and Singapore has also been improving recently, which will help to kickstart some investment activities in the Iskandar Development Zone in southern Johor. Meanwhile, the

Government's public-private partnerships and private-led financing plan are also expected to attract about RM62. 7 billion in investments.