

Challenges faced by malaysia in its journey towards a high income nation at 2020

Life



1. Introduction The prime minister Najib Tun Razak, on 2 may 2010, announced his new program named as New Economic Model (NEM) to make Malaysia a “ developed” and “ high income” country at 2020. To be more specific the main target is to increase the per capita income to 17, 700 USD from 7558 UDS by 2020. But what are the problems for the Malaysia in this way to become a developed and high-income nation? 1- The Economic Transformation And Need For New Institutions: In the past years, Malaysia has used a growth model to become a middle-income country. Now, it has decided to become a high-income country.

So, they growth model has to be changed to another model to guarantee the goal of becoming a high-income country. In this way, Malaysia has to perform its economic transformation plan, develop, and engender the organizations and institutions needed for this transformation. 2- Unity andCoalitionof the Nation and Government: Malaysia as it is known for being the truly Asia, its population is comprised of various ethnics, with various cultures, religions and wants. One group wants to have a pragmatic perspective to the economic and politic issues, another want to have an ideological perspective.

More than 50% of the population is Muslim with Islamic views and having the government power. On the other hand, about 30% of the population is Chinese with an economic power and having a strong presence in the market, which most of them are Christians or Buddhists. But we know that to reach to biggoalsa unity between this ethnics and coalition in the politics and economy, in addition stability in the policies and regulations, and the

perspective of the nation and government toward the economy, policy and international issues is very vital and important.

In fact, the Malaysia people need to rally together as a nation to embrace change, be adaptive to today's environment and increasingly globalized and rapidly changing world. 3- Politics and Opposition Groups: Today, it seems that opposition groups raised from inside of Muslim population have an increasing presence in the policy. However, they do not have the control of government but they are planning to do that. They are pretty popular in the society and also they have taken the majority of benches of Parliament in some of states.

The transformation of power between the current politicians and the oppositions is not problematic itself, but the problems are due to that the oppositions groups, and specifically their leader Dato Seri Anwar Ibrahim are not agree with New Economic Model (NEM) introduced by the prime minister Najib Tun Razak. They criticize the NEM and do not believe on it. So if in the future the opposition groups become more powerful and take the government there can make significant changes in the policy and economic plans.

The instability in the policy and economic planning could be perilous for the Malaysia Vision 2020. 4- Malaysia, an Open and Small Economy: Malaysia is country with an open and small economy. However, it had been prosperous to obtain its goals in the past, but it also needs to consider its limitations, as it is considered wisely by the decision makers. The population is not very large with only 28 million people; the natural resources are not very rich in

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all of cases and the country is not a very vast country like USA, China or Russia.

Therefore, it is very important for Malaysia to concentrate on its advantages and opportunities. I believe Malaysia has to develop competitive niches integrated into global value chain. This means being really good at what it produces. Malaysia needs to emphasize more on the specific niches and at the same time be a part of a bigger value chain. 5- Development of Malaysia's Intangible Assets: Both the NEM and 10 MP (10th Malaysia plan), emphasize on the development of intangible assets.

The Schumpeterian economic model that Malaysia has targeted on to transform from a middle-income to high-income nation rests on the quality of intangible assets. Quality of human capitals, innovation and creativity, institutions and the social capitals are important for quality of intangible assets. 6- Value Added Economic Activities Instead of Labour-intensive Industries: A higher-income nation means higher wages for workers. And higher wages for workers means less competitiveness in attracting foreign investors.

Based on the central bank annual report for the 2010 "the emergence of lower-cost competitors in the region, notably China, Indonesia and Vietnam, has affected Malaysia's competitive advantage in labour-intensive industries, in this regard foreign investment received in recent years have shifted towards higher value-added economic activities". So, it seems that the only way for the Malaysia is to do more efforts to empower the industries with higher value added. On the other hand because higher value added

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industries must have more research activities, more high quality of human capitals.

Innovation and creativity extremely is based on the research and quality of human capital. And the human capital and research are products of high quality universities. in my opinion malaysia in on the right track to develop research universities which are more involved in the creative and innovative research activities, but on the other hand there some problems in the composition of students in the malaysian universities. that is discussed in the next point. 7- First Class Universities to Reduce Brain Drain and Keep the Researchers (Specifically, Natives) After Graduation in the Country:

However, it seems that Malaysia is very serious in developing the research universities, but today Malaysia is a destination for students of other developing countries, specifically Muslim countries. Though a large number of students in the high quality universities are foreigners and specifically in the graduate and postgraduate levels. However, presence of international student specially has some financial benefits for these universities and in addition can boost the research activities and research project defined under educational programs, but it have some disadvantages too.

To clarify more, when these international student finish their programs most of them are reluctant to stay more in Malaysia, so they go back to their home countries or transfer to some western or other developed countries. It means that Malaysia still is nurturing researcher to send them to developed countries (the same problem is in other developing countries). While, usually

fresh researcher and graduates must be employed in the innovative and creative companies that produce high value-added products.

However, developed countries always have their attractiveness for the highly educated people, but generally the native graduates are less willing to leave their home country (if they can educate in first class universities with a high salary base after graduation) than international student which come to Malaysia to transfer to another country or go back to their home countries. Therefore, it is a key factor to develop the Malaysian universities to the first class universities to reduce the brain drain phenomena in the Malaysia and provide the creative and innovative industries with rich resources of high-quality human capitals.

In fact, the human capital is the backbone for each creative and innovative firm and without that, they can do nothing. We can deduce Malaysian universities' performance has a significant effect to reach the 2020 vision. 8- Sustainability through Branding by Domestic Investors: Today Malaysia is a destination of foreign investments. While mostly foreign investors are international companies that look for a cheap work force, they choose the low-cost countries to establish their factories.

On the the other hand they usually transfer their factories, and keep their innovative centers, research centers and design offices in the home countries, which are mostly developed countries. Therefor they have the ability and authority to easily transfer their factories to each other country that suggests them more advantages than the current country (Malaysia). It means that however, have had precious and substantial developments in the

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past years, but these development could not be considered as sustainable developments.

If fact economic growth, low unemployment rate and foreign investement and labour-intensive industries are in contradiction with the vision of 2020, outwardly. That is why the Malaysian government knows that it has to emphasize more on the niche industries, with higher value-added and a bigger value chain. In addition, because international companies keep their design offices on their homelands they do not help the research activities to grow in the Malaysia. Though, the brain drain problems still remain due to underdevelopment of universities and research institutions.

But, by introducing and developing domestic brands with an international market and international famousness, we can be hopeful that they can reduce the brain drain, empower research institutions and gift the Malaysia a sustainable growth and development. Another reason that can be mentioned for developing original Malaysian brand is that however, the Malaysia it going going further than its regional competitors to a high-income nation, there is a probability that these competitors implement some similar plans in their countries.

And because at that time they have to implement similar policies like emphasizing the high value-added or creative and innovative industries, so they can be a potential threat to the future competitiveness of the Malaysia in attracting foreign investors in these kinds of industries. 9- Domestic Private Investment instead of Foreign Investement However, foreign investment had a significant effect on the economic growth of every country;

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usually the domestic investments provide a more sustainable development for the country.

Certainly, foreign investment has its advantages for every economy (for the Malaysia, too), but too much dependence on the foreign investment has its disadvantages, too. I believe that the Malaysia has to emphasize on the domestic private investment, beside foreign investment. Domestic investors have religion, historical, national, and patriotic loyalty to their home country. While foreign investors are very sensitive and spiky. They will leave the country soon after than they find a better place for investment. In addition, international political issues can affect foreign investment.

Universal superpowers can enact some sanctions formally, or informally to affect and hit Malaysia's economy (like the Iran) if the Malaysia want to insist on its national interests or beliefs which are in conflict with those superpowers interests. 10- Global Economic Conditions and Crises: As we know in the past decade, the global economy has experienced numerous crises. 1998 Southeast Asia, 2002 dot-com bubble burst, 2008 financial crisis, and now European financial crisis, while still we can see the 2008 crisis is not finished. In addition that there are not good signs for these two last crises to finish soon.

Some economists believe that USA will have a recession and depreciation economy at least in next few years, something like the Japan's lost decade.

Developing strong bonds with global economy can benefit the Malaysia's economy when the economy is in good condition. But if the global economy or regional economies that the Malaysia has common interest with them

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experience bad conditions, the Malaysia will be affected badly, too. May be the only problem that the Malaysia cannot find an effective solution for that is the global economic condition and crisis.

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