

# New economic model (nem) : an analytical perspective towards vision 2020 essay

[Business](#)



Malaysia has reached a defining moment in its development path. Vision 2020 is not possible without economic, social and government transformation. To move the country forward, the government has crafted a framework comprising four pillars to drive change. The NEM is one of the four important pillars needed to achieve Vision 2020 in the next 10 years, with the three other pillars of the national transformation program being which are 1Malaysia, the Government Transformation Program and the 10th Malaysia Plan.

The goal of the NEM is for Malaysia to be a developed and competitive economy whose people enjoy a high quality of life and a high level of income resulting from growth that is both inclusive and sustainable. The NEM is build on three important principles, first principles is breaking through to high income status with target US\$15000-20000 per capita by 2020, secondly is towards sustainability which is meet present needs without compromising future generations and lastly through the principle of inclusiveness which is enables all communities to fully benefit from the wealth of the country. High income is achieved among others via innovation, creativity, higher productivity, new technology and development of multi-skilled and highly skilled workforce. Sustainability will ride upon environmental friendly projects, increased quality of life and high and sustained growth path. Inclusiveness is achieved among others via affirmative action's and narrowing the income inequalities.

The New Economic Model (NEM) to be achieved through an Economic Transformation Programme (ETP) constitutes a key pillar which will propel Malaysia to being an advanced nation with inclusiveness and sustainability in <https://assignbuster.com/new-economic-model-nem-an-analytical-perspective-towards-vision-2020-essay/>

line with the goals set forth in Vision 2020. The ETP will be driven by eight Strategic Reform Initiatives (SRIs) which will form the basis of the relevant policy measures. The eight Strategic Reform Initiatives (SRIs) consist of re-energising the private sector, developing a quality workforce and reducing dependency on foreign 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 sustainability of growth. Malaysia is still trapped in the “ middle-income gap” despite its economic achievements in the past few decades.

For the record, Malaysia was one of the 12 countries that registered an average growth rate of 7% or more per annum in the 25 years or more since World War II. Notwithstanding this, Malaysia’s current per capita income is still around US\$7, 600, half of the US\$15, 000 needed to be categorized as a high-income country. The deceleration in Malaysia’s economic growth in recent years was attributed to the decline in private investment, a feature that became prominent after the Asian Financial Crisis in 1998 and decline further as a result of the 2008 global crisis. As a result, Malaysia’s growth rate fell to an average of 5.

5% between 1999 and 2008, compared with 8. 8% between 1990 and 1997. Under the NEM, the Malaysian economy is expected to register an average growth of 6. 5% a year from 2011 till 2020. The noble goal of NEM is very much dependent upon the delivery mechanism. However with the

formulated 8 Strategic Reform Initiatives and corresponding policy purposes, 12 NKEAs and an estimated of RM1.

4 trillion of investment, the NEM is set to push Malaysia to become a high income advanced nation with inclusiveness and sustainability. According to economist said that Malaysia will likely fail to achieve Vision 2020 as political indecision and global economic uncertainty looks set to hamper economic growth over the next ten years. With average GDP growth in the next ten years projected to be only 6.5% per cent target set by the prime minister from 2011 till 2020 under the NEM .

As we know that unveiled in 1991 by then-prime minister Dr Mahathir Mohamad, Vision 2020 that towards government's 30-year ambitious plan to make Malaysia a fully developed nation by the year 2020 by increasing the value of GDP and per capita income. Therefore, we can see under the 7th and 8th Malaysia Plans, the economy expanded by 5 per cent and 4.7 per cent respectively, which is below the 8.

6 per cent and 6 per cent targets set under the Malaysia Plans. Similarly, under the current 9th Malaysia Plan, it is projected to grow by just 4.2 per cent annually, meaning Malaysia will once again fail to achieve its target. Through achieving advanced nations are usually identified by their high per capita income and developed service and knowledge industries, coupled with high life expectancy and quality of education . From that, based on current situation, Malaysia will be hard-pressed to achieve Vision 2020 even if it managed to maintain a growth trend 6.

5 per cent per year for the next 10 years. Theoretically, the GDP need to grow more than 6.5 per cent which is it need to grow about 8 per cent in able to reach the high-income goal of NEM that mentioned by the Kenanga Investment Bank economist , Wan Suhaimie Wan Saidie . This theory also analyzed by World Bank's threshold for high-income economies, measured in terms of gross national per capita income (GNI) is USD 12,000 currently and is forecasted to increase to USD 17,000 by 2020. Based on Malaysia's GNI just now in order to achieve high-income threshold by 2020, over the next 10 years we must achieve real annual growth rates of roughly 8%. But it was not an impossible task, unless the government did " something drastic" to lift itself above its current growth drastically. Even though in order to achieve the task toward 8% growth there could be turning point in the next five to 10 years that will either propel Malaysia forward or negate everything that it has built so far.

It could be war, disease or new technology improvement in the world that will affect the Malaysia's growth. From that, it was more important to focus on equitable distribution of nation's wealth than only more focus on economic expansion that had been mentioned in NEM under principle of sustainability. This is because we need to divide between the haves and have-nots. No matter how high our GDP growth, if we cannot address these issues, we will going to have problems in the future.

Malaysia needed to address these issues and improve the education and migration systems to attract talent so it could compete with regional rivals for foreign investment. The new economic model encompasses almost all

aspects of the economy and should be greeted with positive response and an open mind. A major challenge, however, is the development and supply of human capital that is needed to ensure its success. There is a need to draw professional talents from abroad and it is time that the government introduces major reforms on its immigration policies, in tandem with its pursuit of economic reforms, to attract the best talents to help contribute to the economic development of the country, particularly on areas involving high-technology research and development. In addition, the development of our own skilled labour need to be adopted and further enhanced which is introduction of the attractive remuneration packages to them in order to reduce the amount of foreign worker that one of the SRIs in NEM. From that, based on the discussion on the target value of GDP in NEM which is 6.5% from 2011 until 2020, it is affordable to achieve by our country which the same time we focus on other two principles of NEM, the inclusiveness and sustainability that will bring our economic toward achieving the high income target.

This is because, actually we must put affordable target in order to go smoothly and for the same time we prepared ourself to bear any of unexpected situation or risk that will happen in the future. As conclusion, Malaysians must be reminded that we live in a very competitive and globalised world where the ambition of enjoying high economic growth is also the aspiration of many under-developed and developing countries. Therefore we must aware on our own ability and set the target that we affordable to achieved and everything must through a strategic planning in order to achieve the target.

Based on the NEM set by the prime minister that focus on three principle, our country will be able to go step by step towards our vision 2020, InsyaAllah. the NEM is set to push Malaysia to become a high income advanced nation with inclusiveness and sustainability Issues of FDI Quite a large number of economists broadly agree that FDI plays a crucial role in the development process of a country. They argue that FDI affects economic growth via various venues like, increasing capital formation, advanced technology and know-how, employment and possible spillovers effects on the local firms.

Many studies tried to quantify its contribution to economic growth but the empirical results are mixed. For example, Borensztein et al. (1998), De Mello (1999), and Obwona (2001), while exploring the relationship between FDI and economic growth confirmed the FDI promotes economic growth. On the other hand, Balasubramanyam et al.

(1999) and Zhang (2001) who found that FDI beneficial for economic growth but pointed out that its benefits are not automatic rather are contingent upon certain characteristics of the host country. This implies that FDI not only has direct impact on growth, but also has indirect effect on growth. In the case of Malaysia, Baharumshah and Almasaied (2009) investigate the role of foreign direct investment in economic growth in Malaysia, appropriately controlling for other major determinants of economic growth, namely domestic investment, exports, financial markets, and human capital. The empirical results based on time series analysis demonstrate that domestic capital formation, FDI, human capital and financial deepening are statistically significant determinants of economic growth. FDI has a positive

and significant effect on economic growth, but its effect is of lesser magnitude than that of domestic investment. The results also show that human capital and financial markets interact with FDI, and thus, are important for both short and long-term growth processes.

The above findings indicate that the spillover effects via FDI take place when Malaysia has sufficient human capital resources and financial market development. Therefore, the FDI policies must take into account of other aspects of absorptive capacity, such as human capital development, financial sector development, technological gaps and institutional development. If these aspects of capacity are above the threshold level, then FDI flows are more likely to be associated with positive spillover effects.

On the other hand, if the absorptive capacity fall short of the threshold level, then FDI has no effect on growth as the country is trapped in low growth equilibrium. Ang (2009) also examines that FDI-growth nexus in the case of Malaysia by controlling for the level of financial development. Using time series data from 1965 to 2004, the empirical results demonstrate that FDI and financial development are positively related to output in the long-run. The findings also indicate that the impact of FDI on output is enhanced through financial development. In terms of causality, the results reveal that economic growth causes FDI growth in the long-run, but there is no feedback relationship is observed between both variables. Besides the effect of FDI on Malaysian growth, Ang (2008) evaluates the determinants of Malaysian FDI. Consistent with the prediction of the market size hypothesis, the results



show that real GDP is found to have a significant positive impact on FDI inflows.

There is evidence that growth rate of GDP exerts a small positive impact on inward FDI. From a policy point of view, the findings suggest that increases in the level of financial development, infrastructure development, and trade openness promote FDI. On the other hand, higher statutory corporate tax rate and appreciation of the real exchange rate appear to discourage FDI inflows. Based on the news on September 29, 2010 in Malaysian Insider Blog stated that Former prime minister Tun Dr Mahathir Mohamad warned today that Malaysia will very likely not achieve Vision 2020 if the government continues to rely on foreign direct investment (FDI) to drive economic growth. Malaysia started to experience an FDI reversal in 2007, where the direct investments abroad is greater than direct investments into Malaysia. This implies that more and more Malaysian firms are investing abroad, whether in businesses or purchasing real estate.

However, this move does not mean that Malaysia loses the investment capital opportunities. The firms that invest abroad are mainly listed on Bursa Malaysia. The financial success of their investment abroad will bring positive impacts on the firms' shareholders, as well as directly affects the overall value of local assets. In addition, the revenue generated from abroad, in turn, will be strengthened the firm's ability to invest locally. Quite a large number of economists broadly agree that FDI plays a crucial role in the development process of a country. They argue that FDI affects economic growth via various venues like, increasing capital formation, advanced

technology and know-how, employment and possible spillovers effects on the local firms.

Many studies tried to quantify its contribution to economic growth but the empirical results are mixed. For example, Borensztein et al. (1998), De Mello (1999), and Obwona (2001), while exploring the relationship between FDI and economic growth confirmed the FDI promotes economic growth. On the other hand, Balasubramanyam et al. (1999) and Zhang (2001) who found that FDI beneficial for economic growth but pointed out that its benefits are not automatic rather are contingent upon certain characteristics of the host

0