New economic model of malaysia

Economics

New Economic Model (NEM) unveiled with much fanfare. It has been accompanied by the usual uncritical write-ups and praise from economic analysts from the mainstream mass media. Maybe they see in it more than what can be discern or maybe can be an incorrigible skeptic with less faith in grand visions, especially those put out by a group of consultants.

The National Economic Advisory Council (NEAC) as its name suggests is purely an advisory body with very little – if any – authority or clout in implementation. The theories behind New Economic Model (NEM), firstly though, let's begin by noting that with the tone of urgency struck by the council in the document. This is a much needed departure from economic documents of the government which have been overly optimistic on the country's economic future. The preface to the NEM notes that " the time for change is now – Malaysia deserves no less". Nobody will disagree with this. In fact, in some ways, the Government and NEM may be too late in seeking solutions on many key challenges. The time for change should have been at least 20 years earlier.

By consider for example Strategic Reform Initiative 2 on the developing a quality workforce and reducing dependency on foreign labour. According to the NEM, " policies will focus on generating a talented workforce to meet the needs of a high-value knowledge economy while wage-restraining labour market distortions, such as excessive and indiscriminate use of foreign labour, will be removed. Although over-dependence on foreign labour has been identified as a major constraint to the economy for many years, yet the number of foreign workers in the country – especially if the number of illegals is included – has grown practically every year during the past 30 years. How to put a stop to this is easier said than done. Another major shortcoming is that many of the so-called bold new strategic policy directions are not new. A quick review of government economic documents shows that these new policy directions have been regurgitated or recycled from earlier Malaysia Plans. Thus the eight strategic Reform Initiatives (SRIs) that will anchor the NEAC's recommendations is appears to be old wine in new bottle.

If one examines the five major thrusts of the 9th Malaysia Plan they seem no different from the eight SRIs of the NEP. If we go even earlier to the Eighth Malaysia Plan, we see the same recommendations under slightly different labeling. Instead of the eight SRI for the NEM and five key thrusts for the 9th Malaysia Plan, we have the nine strategicgoalsof the 8th Malaysia Plan. More serious concerns about the NEM relate to the following: • It assumes that the country's GDP will grow at least over 6 percent annually for the next 10 years. This growth rate assumes that the global economy with which we are tied up will continue to grow every year without fail. As the recent global financial downturn has demonstrated, there is no guarantee that the global economy on which our exports are dependent will continue on a straight line growth path. Should there be a slowdown in the global economy, the NEAC's scenario for the country's per capita GNP to reach the magical number of USD17, 000 in 2020 will be unattainable.

It appears to assume that petroleum and to a lesser extent gas revenues will continue to be the cash cow driving the Malaysian economy. Are these revenues sustainable over the next 10 years? Government reports have been silent on this key question and the NEM report similarly has no data relating to this critical factor. Currently, oil and gas revenue accounts for more than 40 percent of government revenue. As oil production slows down and energy demand continues on an upward spiral, how much oil is there in the tank to fuel present and future growth? There is just one line in the NEM report on the impact of diminishing oil production. Perhaps the next part of the NEM will have more to say about this issue. • Although one of the eight SRIs relates to public sector reform and “ a lean, consultative and delivery focused government”, a glaring omission is any discussion and analysis on how to arrive at this lean civil service. We already have 1.

2 million civil servants in a population of 26 million or approximately one civil servant for every 20 Malaysians. This is not affordable or sustainable. Japan, for example, has a ratio of one civil servant for every 155 of its population. If the Japanese ratio was to be applied to Malaysia, we will need to reduce our civil service by one million employees! Clearly this size of cutback is not politically feasible. However, what is taking place in Greece now – a meltdown of the country’s financial standing – in large part due to corruption, mismanagement of the country’s public debt, and a bloated civil service that has been the playground of patronage politics could very well happen in Malaysia where the same factors responsible for Greece’s financial meltdown are at work. Let’s see if the next NEM report will be able to provide a clear action plan on the cuts to the civil service and other structural changes needed for a lean and mean civil service before we pronounce it a realistic and achievable economic framework for the country. Finally, there is a major unresolved contradiction in the basic thrust aimed at removal of subsidies and the thrust focusing on lifting the bottom 40% of households and reducing income disparity.

The NEM categorically states that “ the pricing of essential goods and services in Malaysia does not reflect market prices …. [and] the large government outlay on subsidies – is not sustainable”. Hence we can expect pricing reforms soon affecting basic commodities and services. But what will be the impact on the living standards of the poor and lower middle class when subsidies are removed? There is mention of a “ Transformation Fund” to ease the pain during the reform period and of a wider safety net for the bottom 40% households prior to subsidy removal. Even if these are put in place without distortions and leakages, the impact of market pricing of essential goods and services will be to widen income inequality. And where ismoneyfor this enlarged safety net to come from when the target is to reduce the fiscal deficit in the federal government (7. 4% of GDP in 2009) to a near balance within the next 10 years? This is probably the Achilles heel of the NEM.

As stated, the NEM is 20 years too late so that we are now truly caught between a rock and a hard place.