Strategic Reform Initiatives for the New Malaysian Economy

*The final session of the Inaugural ISIS Praxis Seminar was a tête-à-tête session on the Strategic Reform Initiatives for the New Malaysian Economy. Senator **Tan Sri Amirsham A. Aziz,** the Chairman of the National Economic Advisory Council (NEAC), spoke in this special session which was moderated by **Tan Sri Dr. Sulaiman Mahbob**, Chairman of the Malaysia Investment Development Authority (MIDA). **Mazlena Mazlan**, Researcher at ISIS reports.*

From left: Amirsham A. Aziz and Sulaiman Mahbob

Tan Sri Amirsham A. Aziz said the New Economic Model (NEM) is a two-part recommendation by the NEAC to the government on the critical transformation needed for Malaysia to become an advanced nation, based on the principles of high income, inclusiveness and sustainability. While the first part of the report analysed Malaysia's position and the fundamental weaknesses that have caused the country to be stuck in a middle income trap, the second part delved deeper into the government's eight strategic reform initiatives (SRI) and recommended essential policy measures to overcome these weaknesses. The baton has since been passed on to The Performance Management & Delivery Unit (PEMANDU), which at the time of the conference was close to completing the detailed implementation plans before submission for cabinet approval. PEMANDU will also coordinate the execution of these plans.

The four main thrusts of the strategic reform initiatives are:

Farish Noor (third from left) discussing a point with Amirsham A. Aziz

(i) The creation of a competitive investment environment;

(ii) Development of a quality workforce;

(iii) Transformation of the government so as to improve its service delivery to support the private sector and become fiscally sustainable; and

(iv) The narrowing between disparities

These thrusts reflect the challenges of the nation in placing the private sector back in the driver's seat to steer the economy, while the government plays the role of facilitator, rather than active player in economic activities. One of the challenges is to strike a balance between allowing the bigger players to drive the economy forward and continuing to support the small and medium enterprises (SMEs), who should not be left to lag behind.

> ***Malaysia is losing its attractiveness as a business destination, due to archaic regulations***

Secondly, in the efforts to attract and retain local and foreign talents in the country, job security for the employees must be balanced with the employers' demand for increasing flexibility in the management of their workforce. In this respect, retraining and re-skilling opportunities, as well as unemployment insurance should be introduced as offset mechanisms, along with the more flexible work permit regulations which are longer term in nature.

These offset mechanisms will act as a buffer and reduce uncertainty. They will complement a policy that increases flexibility in hiring and firing to weed out the non-performers.

A participant expressed concern over the quality of Malaysia's education system, especially in public schools, which he said needed to be improved, as many young couples are migrating due to concerns over their children's future prospects.

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Thirdly, Malaysia is losing its attractiveness as a business destination, due to archaic regulations. Amirsham expressed his delight that the SRI laboratories have identified key issues that have to be addressed to transform the government. Among others, measures to bring new talents into the civil service, such as through tapping talents from government-linked companies and the private sector, and positioning them in the government sector, were suggested. Finally, the bottom 40 per cent of the population should not be overlooked as their potential would be underutilized in generating economic growth.

Nevertheless, such transformation requires private sector participation. Industries need to shed their low cost mentality and accept the increased wage costs resulting from competition for talents. The continuing reliance on low cost resources, namely semi-skilled workers and underpriced energy must change. Unfortunately, the government is also seen as giving employers too much access to cheap foreign labour.

Energy subsidies will be gradually withdrawn. Likewise, the implementation of a minimum wage policy is highly likely. Certainly, the minimum wage policy will be indiscriminate between local and foreign workers. The challenge is that it will result in a steep rise in production costs, given that a large proportion of the labour force currently earns below the potential minimum wage. There is concern that Malaysia is losing out to China, which is also trying to shed its low cost image, but has the advantage of cheap and reliable energy.

However, it has been historically proven that subsidised energy in Malaysia has not led to increased investment, whereas countries such as Japan and Korea who pay market price for energy have been incentivized to strive for high technology, productivity and value-added products to offset the higher energy cost.

A participant suggested that rising wages have not been matched by increases in productivity. However, Amirsham said that the last 10 years have shown that productivity has risen ahead of wages. It is therefore a situation of catching up. But more importantly, this also signifies that the economy has been riding on low cost labour in a way that has led to underinvestment. The speaker therefore urged industry players to adapt to these challenges, improve productivity, improve research and development (R&D) and use technology to transform their companies to make them more competitive.

Local players are also urged to rise to and adopt international standards in quality, health, safety and security. The domestic market can be a starting point as Malaysian consumers increasingly demand higher quality products and services, but upgrading beyond this is a necessity in order to break into the international market. Industry players must also scale up their operations, adopt new technologies and skills and collaborate with other players. Depending on the 27 million people that make up the local market is no longer sufficient to move forward.

Certainly, undertaking transformation is not without its challenges. Various conflicting stakeholders need to collaborate and compromise to a certain extent. The government needs to make some difficult decisions, especially since

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other countries are also undertaking reforms, and moving as fast, if not faster than Malaysia. Malaysia is lagging behind other countries post the Asian financial crisis because the nation underwent neither major fundamental transformation nor investment policy reform while the other badly hit countries evolved. Nevertheless, Malaysia has an advantage in that it began its liberalization much earlier. The good infrastructure and healthy banking system will also complement our willingness to support the transformation in order for the country to move successfully forward.

The session concluded with the moderator, **Tan Sri Dr Sulaiman Mahbob** suggesting that professional services be liberalised. The law has been very protective although our professionals are on par with world standards and are global players. Such liberalization encourages intellectual property standards to be raised. Countries such as Britain and Singapore have taken steps in this direction and it was suggested that Malaysia should do so too.

We have time constraints, as we have nine years to achieve this before 2020. The key is therefore to be able to drive the National Key Economic Areas (NKEA) and at the same time address the foundational impediments as recognized in the first part of the NEM. Without the foundational improvements, the NKEA will not be able to operate at its fullest potential. Transformation will be both time-consuming and painful, but standing still is certainly not an option.

Resistance to change is ongoing, therefore the NKEA must be made to work. The public will be convinced if they observe that well-rewarded jobs are being created and real income is moving upward. Effective communication, with the cooperation of the mass media, is therefore crucial to ensure that the public buys into this initiative and therefore supports the transformation efforts.