

Conference for Competitiveness: Driving Innovation for Competitiveness

Malaysia Productivity Council

Driving Towards High Income Economy

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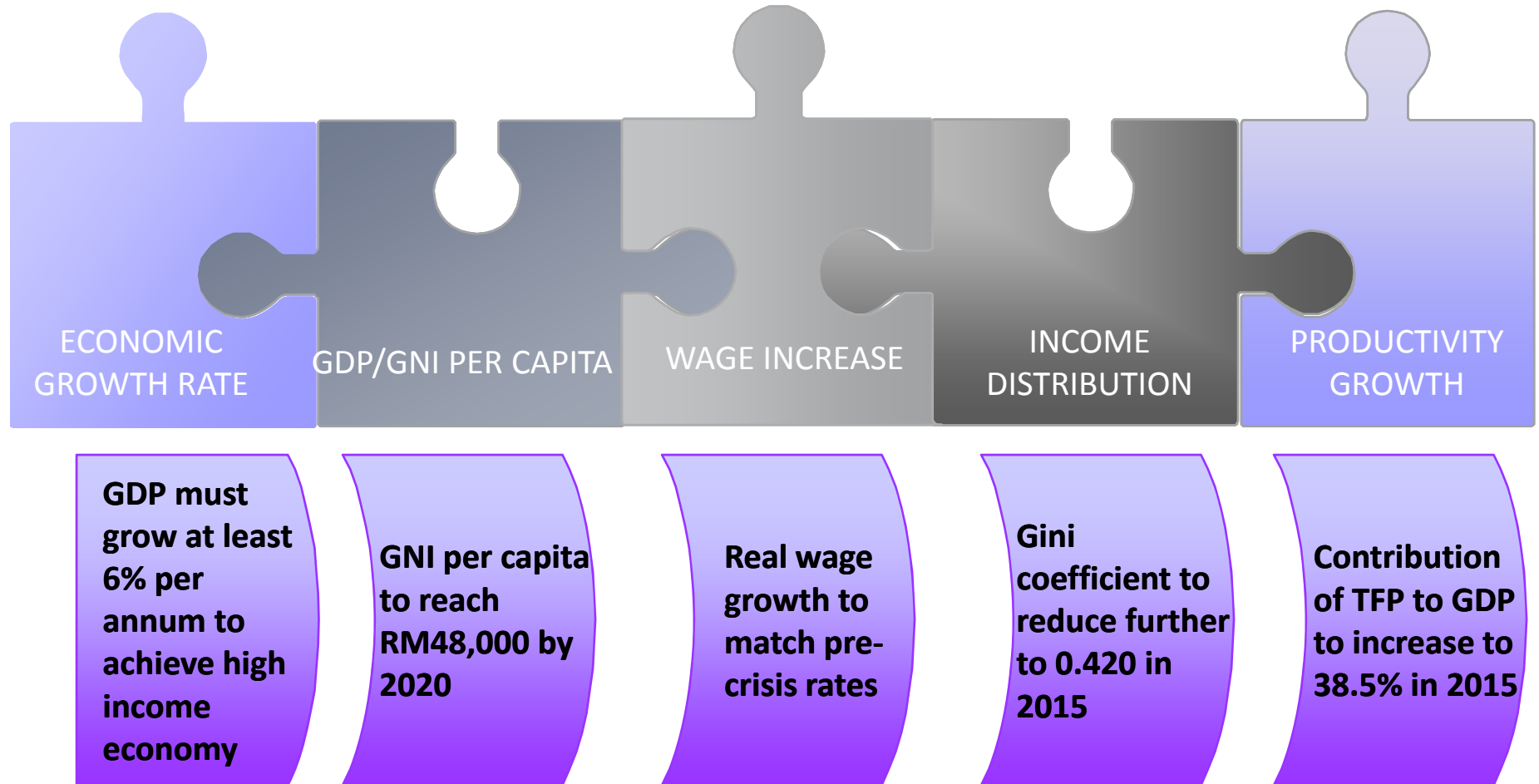
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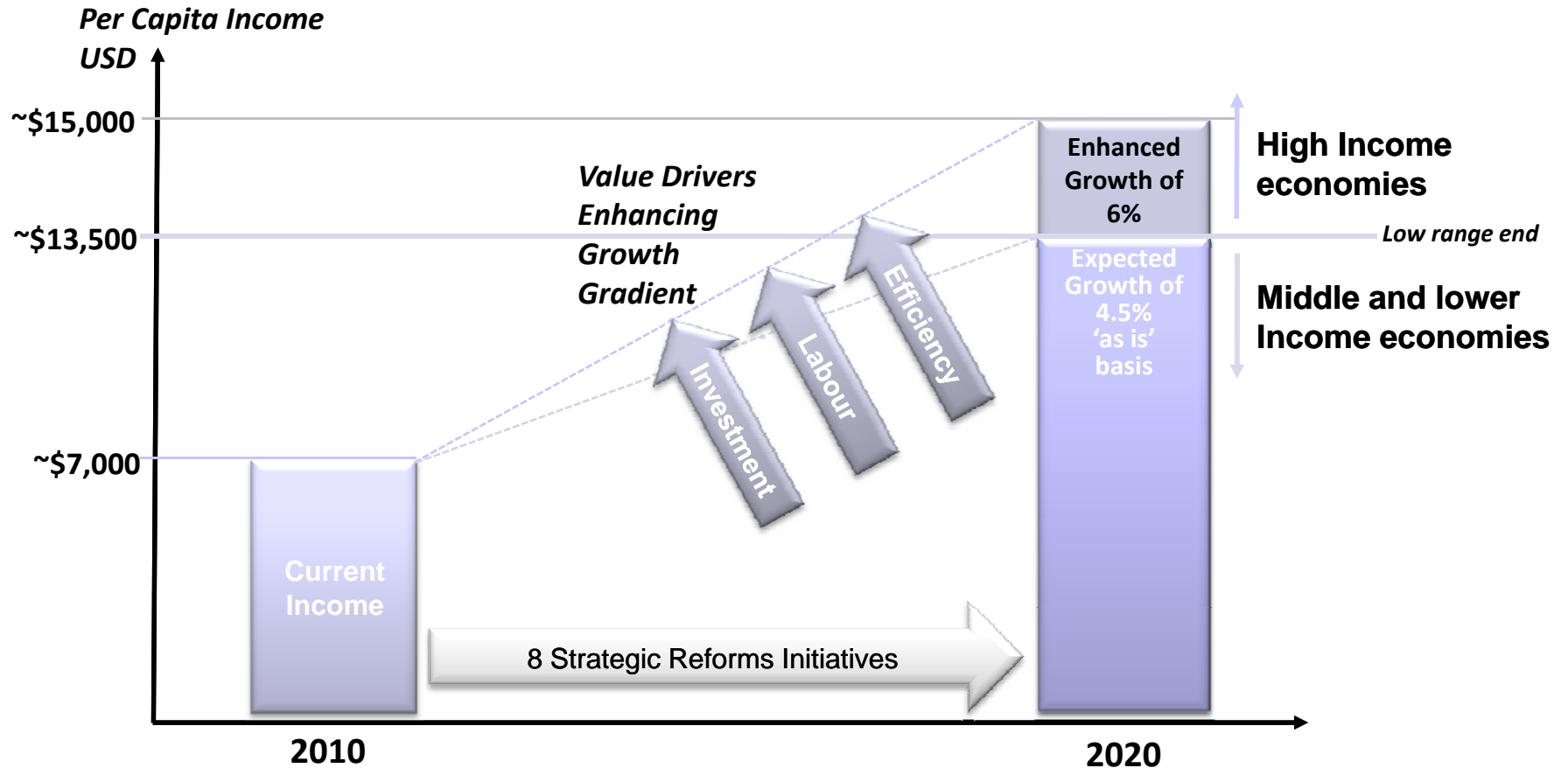
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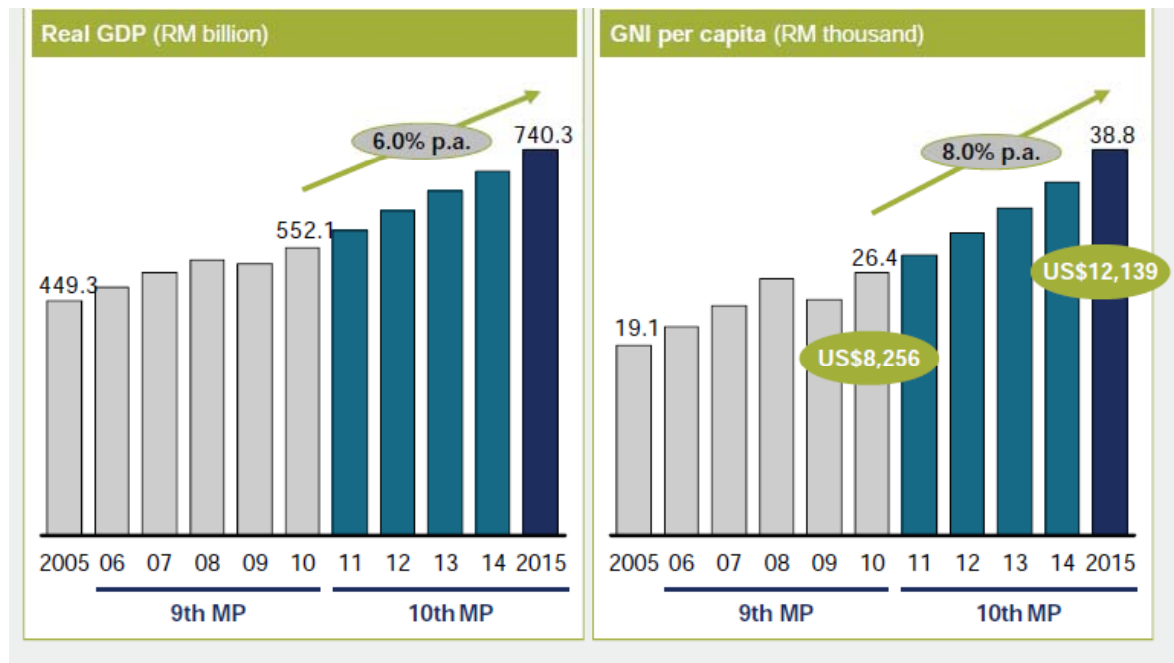
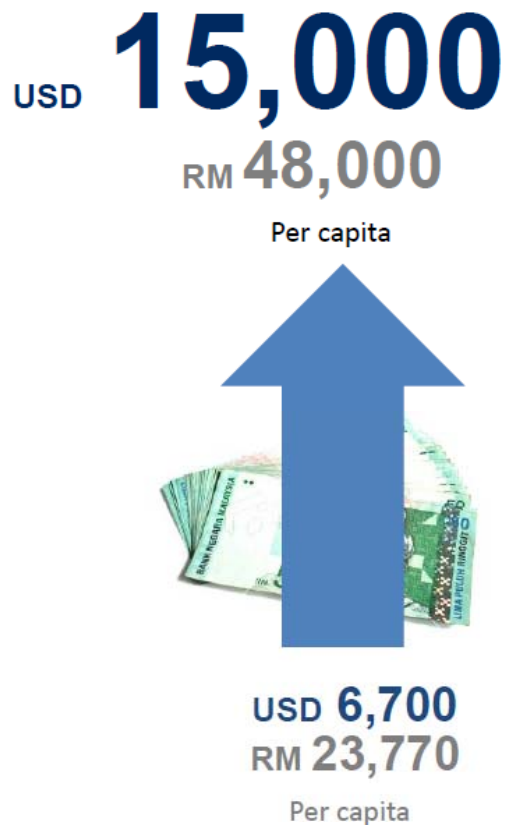
Targets for high income economy



Economic growth rate to grow at least 6% per annum



GDP and GNI per capita to increase to USD15,000 by 2020



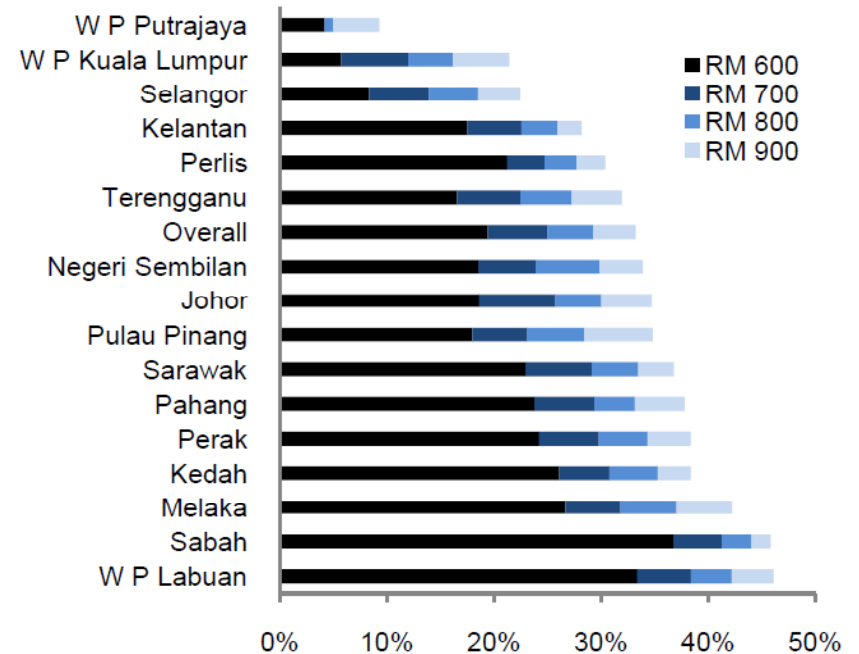
Source: 10th Malaysia Plan, EPU

Real wages must increase and recover the growth rates pre-Asian Financial Crisis

Increase in real wages per annum (%)
Pre-crisis '94-'97 | Post-crisis '98-'07

		Pre-crisis '94-'97	Post-crisis '98-'07
Export-Oriented Industries (EOI)	Average Increase for EOI	5.6	1.9
	Electrical and Electronics	6.2	2.5
	Petroleum, chemical, rubber, plastic products and real estate	6.0	1.5
	Textiles, wearing apparel and leather products	5.8	-1.3
	Wood products, furniture, paper products, printing and publishing	2.8	1.4
	Average Increase for DOI	6.8	1.4
Domestic-Oriented Industries (DOI)	Transport Equipment and other manufactures	7.9	2.5
	Food, beverages and tobacco	6.8	1.2
	Non-metallic mineral products, basic metal and fabricated metal	5.9	0.6
	Total Manufacturing	5.9	1.8

Share of workers earning less than various wage levels



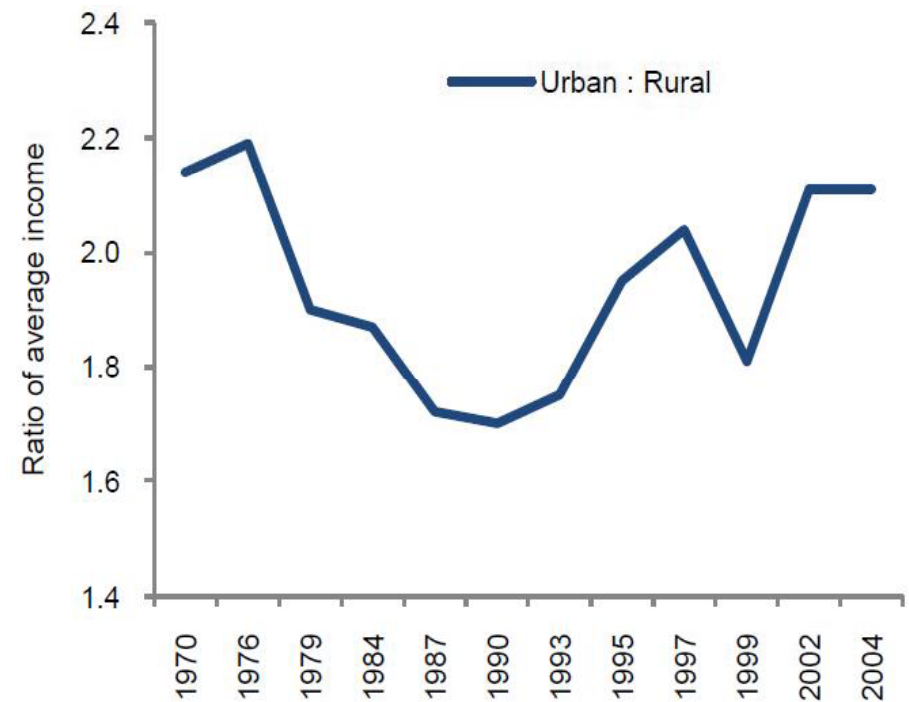
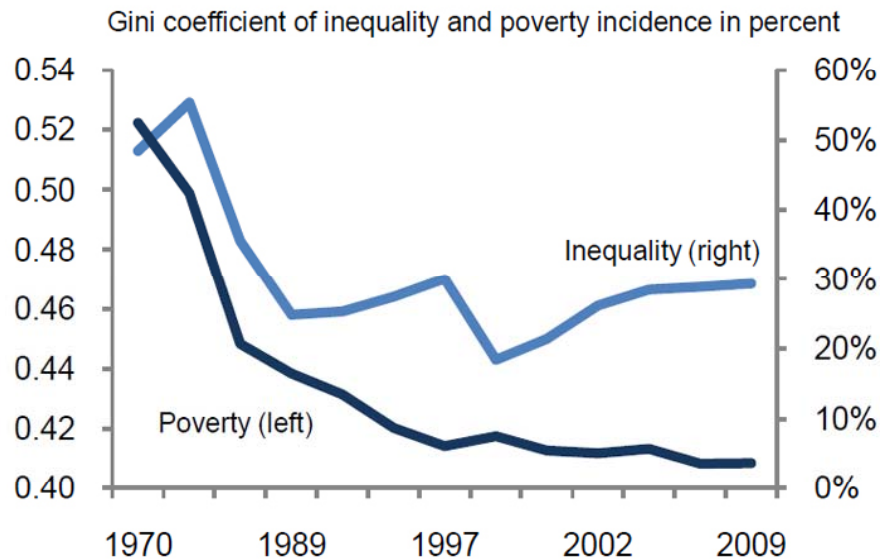
Source: Malaysia Economic Monitor, 2010

The growth in real wages has been significantly reduced post Asian Financial Crisis

Source: Reshaping Economic Geography Report in East Asia

Income inequality need to be reduced to achieve inclusiveness

Poverty has declined markedly, but inequality remains at high levels



Source: DOS, EPU and World Bank staff calculations

Growth to be driven by productivity rather than higher capital and labour inputs



Country	TFP growth	GDP growth	Ratio
Switzerland	1.4	3.6	0.39
Germany	0.6	2.4	0.25
Japan	1.8	2.3	0.78
New Zealand	1.6	3.0	0.53
USA	0.8	2.1	0.38
Malaysia (2006-2010)	1.5	4.2	0.38

Ratio of Total Factor Productivity Growth to GDP Growth of selected OECD countries, 2007

Source: OECD and 10th Malaysia Plan

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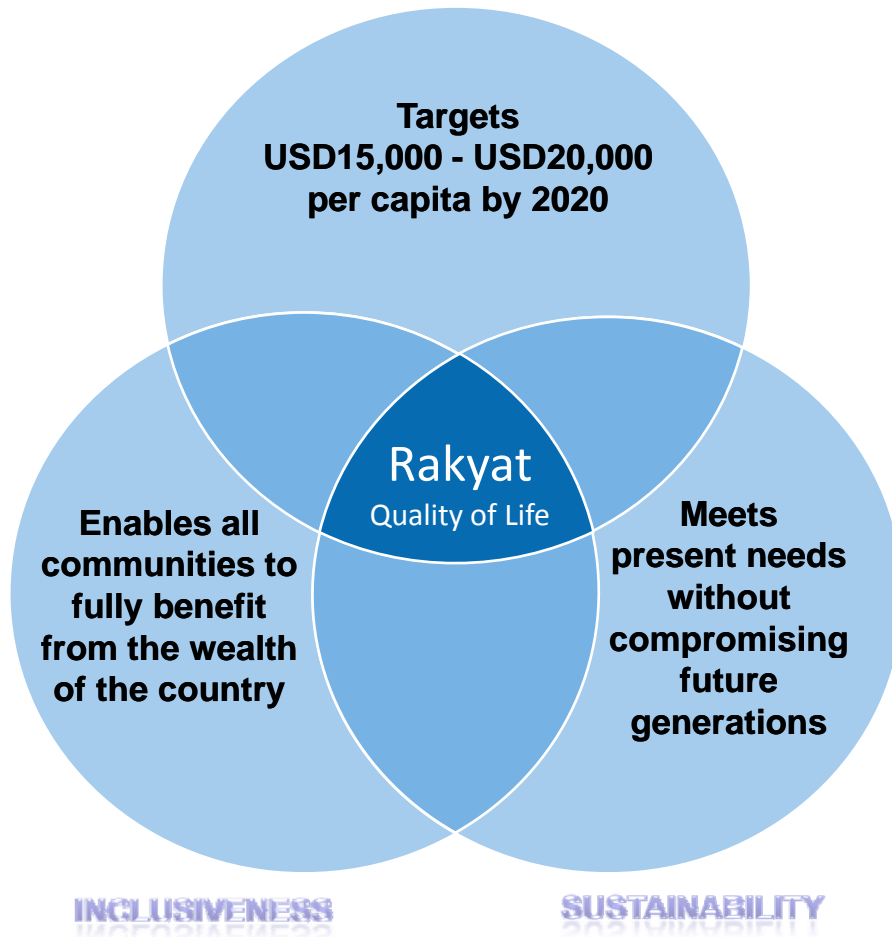
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High Income is an element in NEM

HIGH INCOME



HIGH INCOME
GROWTH + WEALTH CREATION

SUSTAINABILITY
FIXING THE FOUNDATIONAL ISSUES

INCLUSIVENESS
NARROWING DISPARITY

The NEM consists of 8 Strategic Reform Initiatives (SRI) and 12 National Key Economic Areas (NKEA)



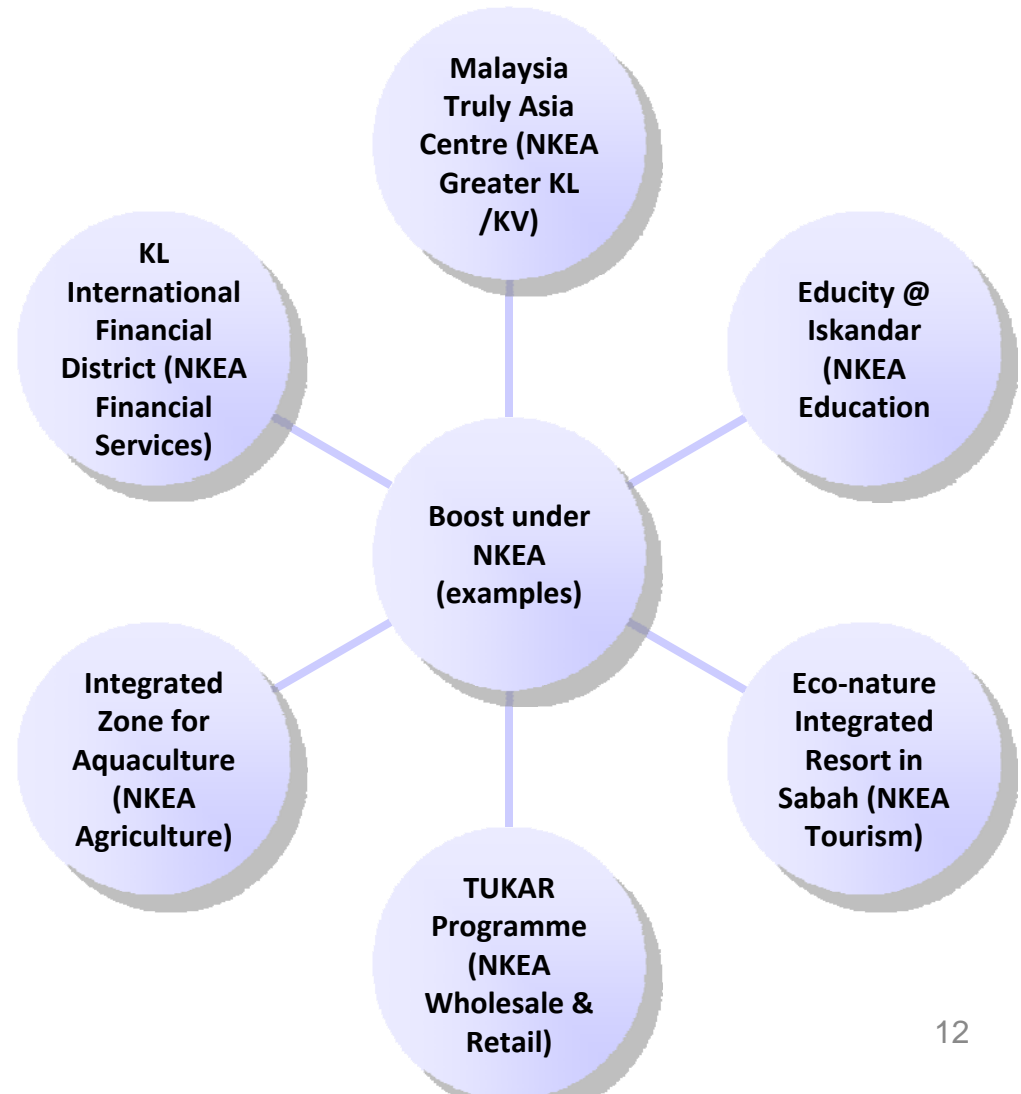
NKEA provides immediately required boost to the identified sectors

② Boosting identified sectors/projects

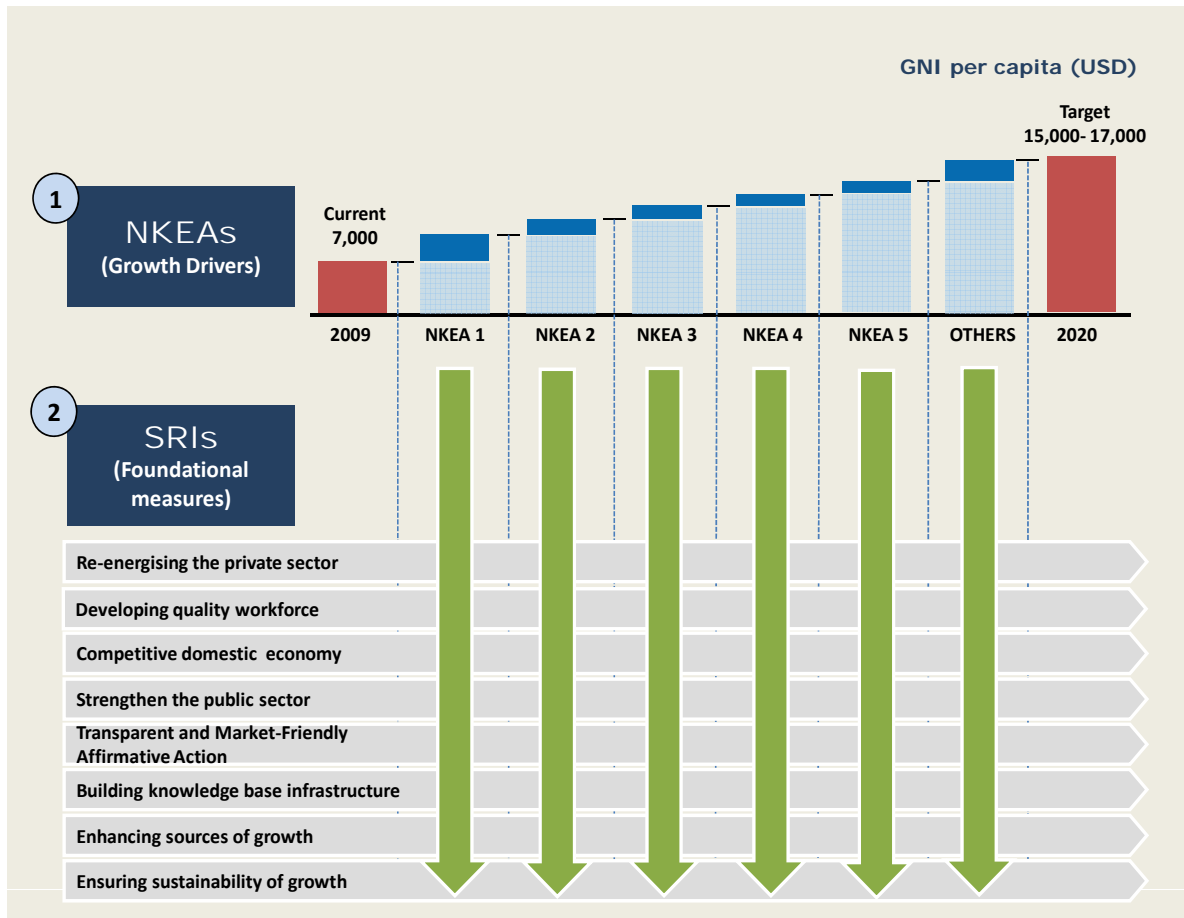
① Immediate Growth

131 Entry Point
Projects
(EPP)

60 Business
Opportunities
(BO)



Without SRIs, NKEA projects will not achieve their full potential

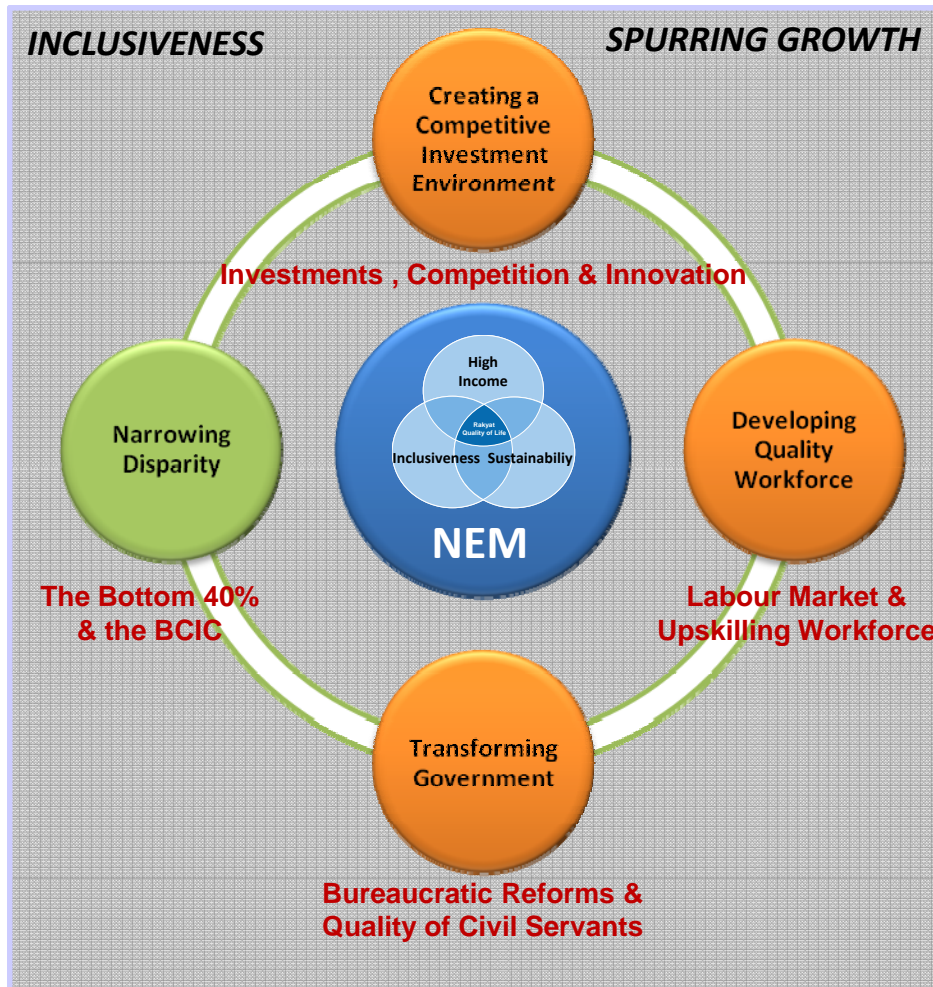


❖ **NKEAs** involve ‘**Entry Point Projects**’ (EPP) and business opportunities to raise income levels

❖ **NEM** has **Strategic Reform Initiatives (SRIs)** that are cross-cutting to remove barriers and structural deficiencies

Looking closer at SRIs

THE INTERCONNECTEDNESS OF SRIs



CREATING A COMPETITIVE INVESTMENT ENVIRONMENT

Re-energising the Private Sector
 Creating a Competitive Domestic Economy

Building the Knowledge Base
 Infrastructure

Ensuring Sustainability of Growth

Enhancing the Sources of Growth - NKEAs

DEVELOPING QUALITY WORKFORCE

Developing Quality Workforce and
 Reducing Dependency on Foreign Labour

TRANSFORMING GOVERNMENT

Strengthening of the Public Sector and
 Fiscal Sustainability

NARROWING DISPARITY

Transparent and Market Friendly
 Affirmative Action

SRI seeks to address our deficiencies which are preventing us from moving forward

<p>Controlled Pricing System Undervaluation of resources results in gross misallocations</p>	<p>Education Sector <i>Failing to deliver required talent to the economy</i></p>	<p>Lower Income Group (<RM 3,000) is falling behind and not realising its potential contribution</p>
<p>Corruption <i>High level perception</i></p>	<p>Talent Insufficient numbers to drive growth</p>	<p>Private Sector <i>Short-sighted in business outlook</i></p>
<p>Rent-Seeking and Patronage Pervasive behaviour</p>	<p>Labour Market <i>Overreliance creates distortion and impedes productivity</i></p>	<p>Public Sector Ineffective and siloed impeding investment</p>

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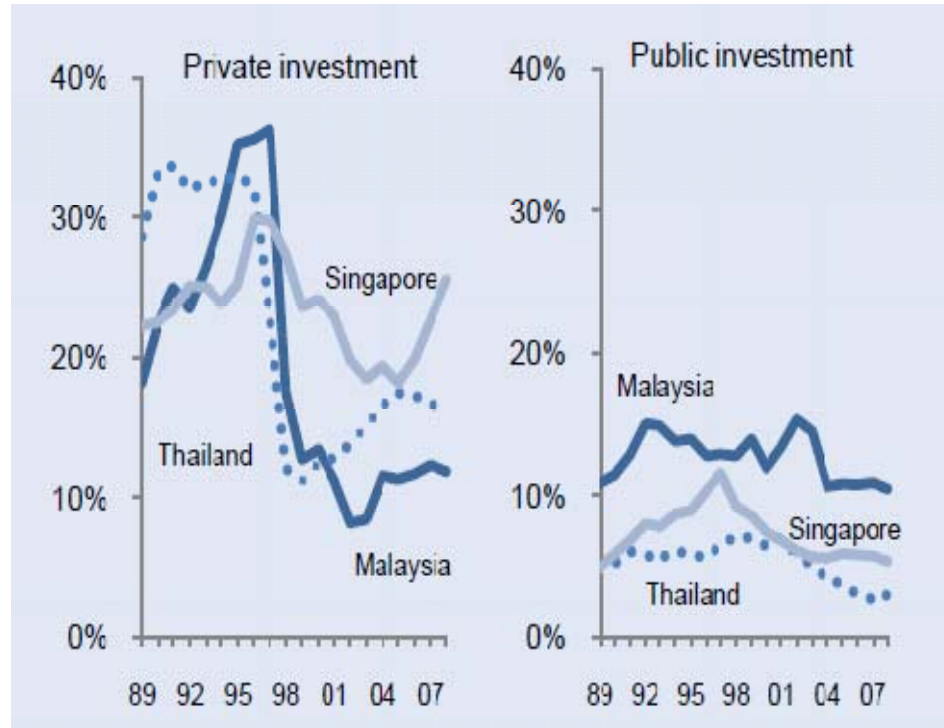
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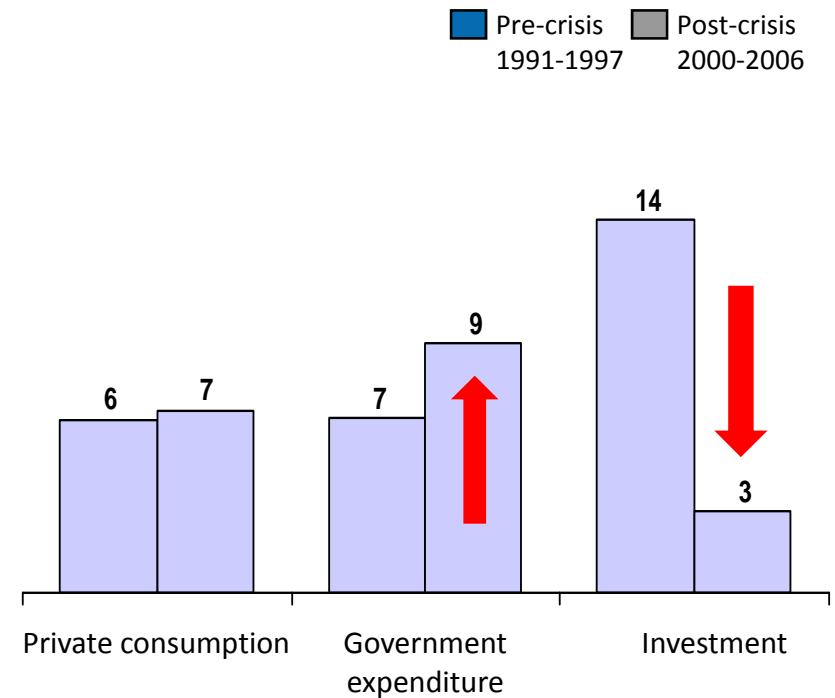
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Investment need to return as engine of growth

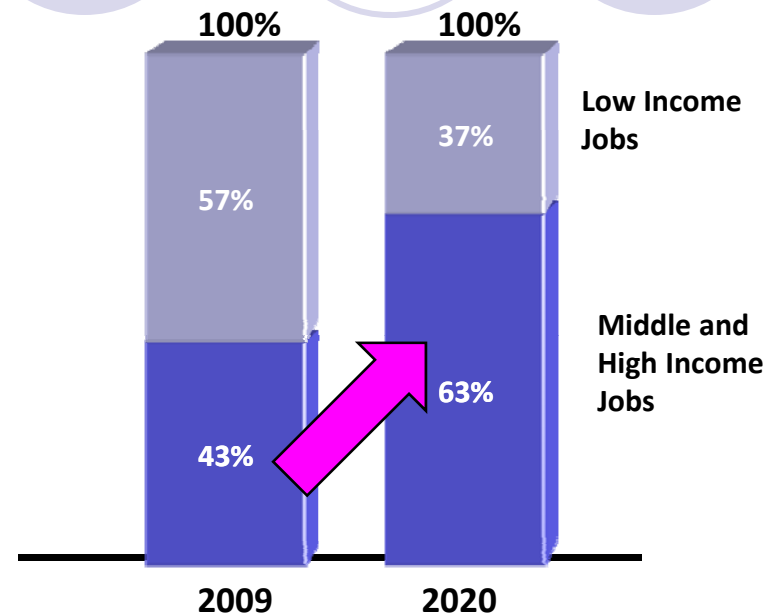
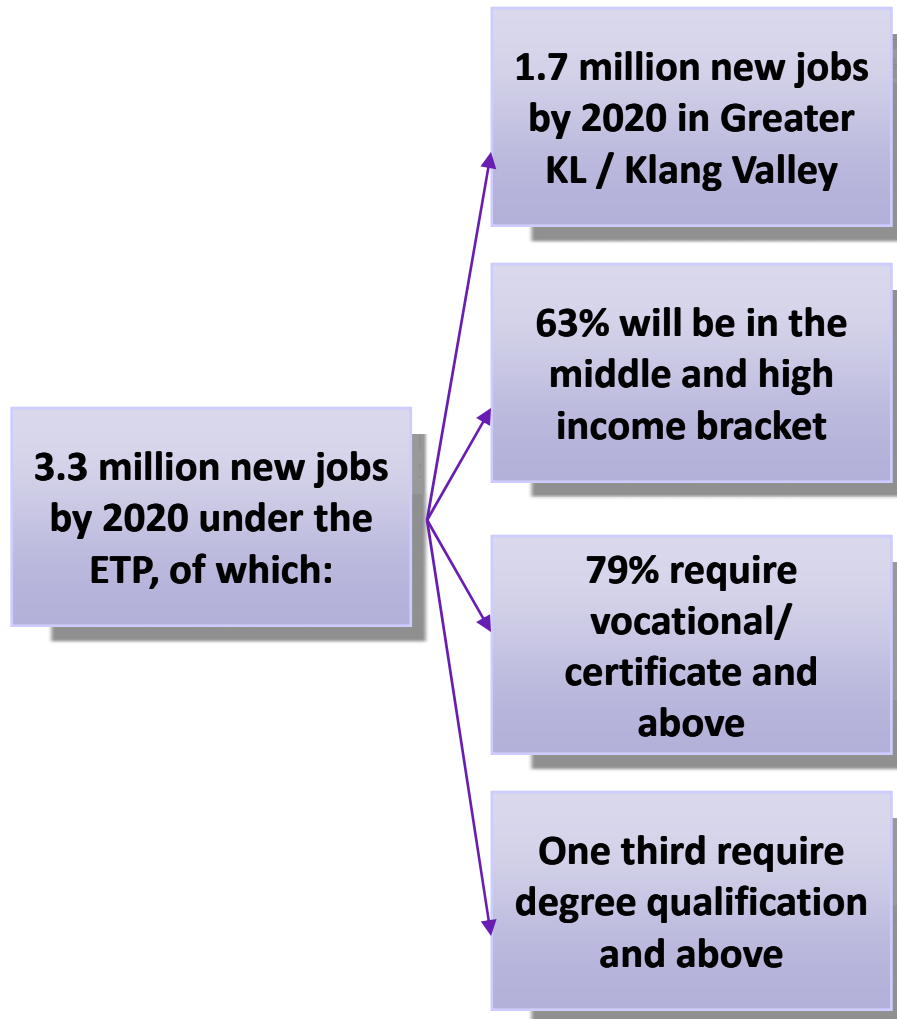
Private & Public investment as share of GDP
1989-2008; %



Average annual growth
1991-2006; %

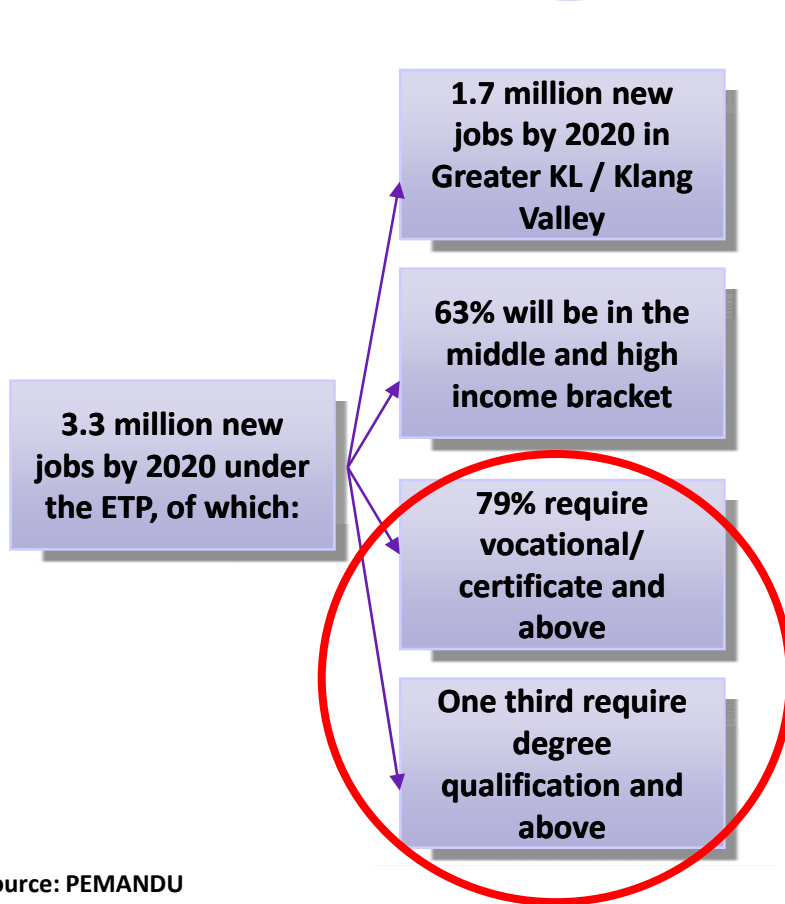


High paying jobs need to be created



NKEA initiatives will create additional 3.3 million jobs, of which 63% will be in middle and high income segment compared to the current 43%

To fill in these jobs, more skilled workers in the labour market is needed



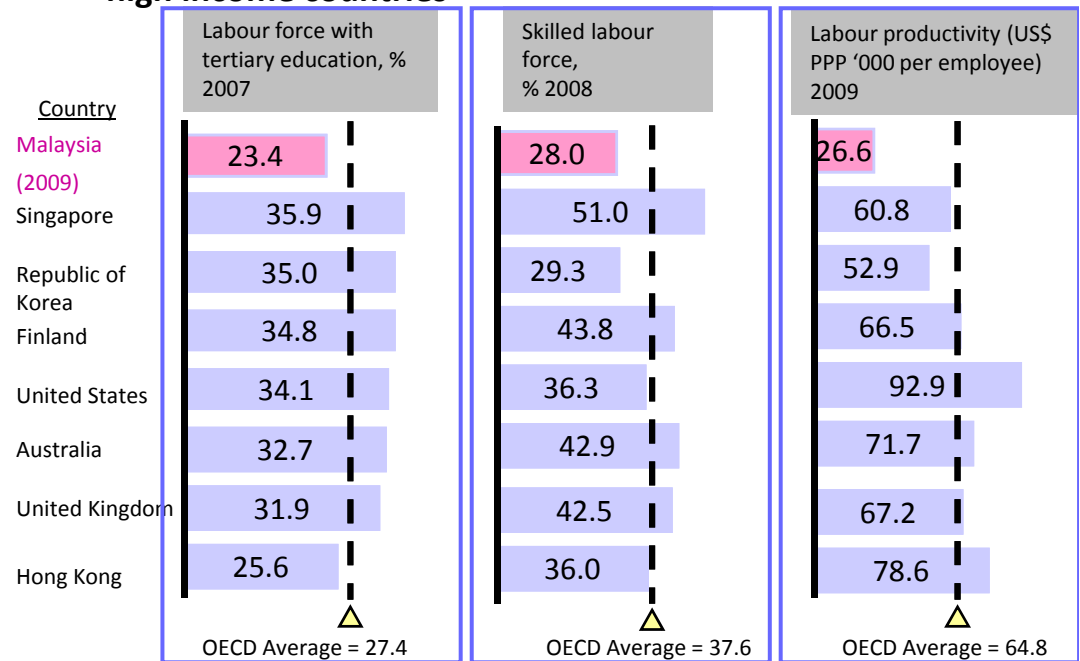
Source: PEMANDU

- 1** New jobs require higher educated workforce

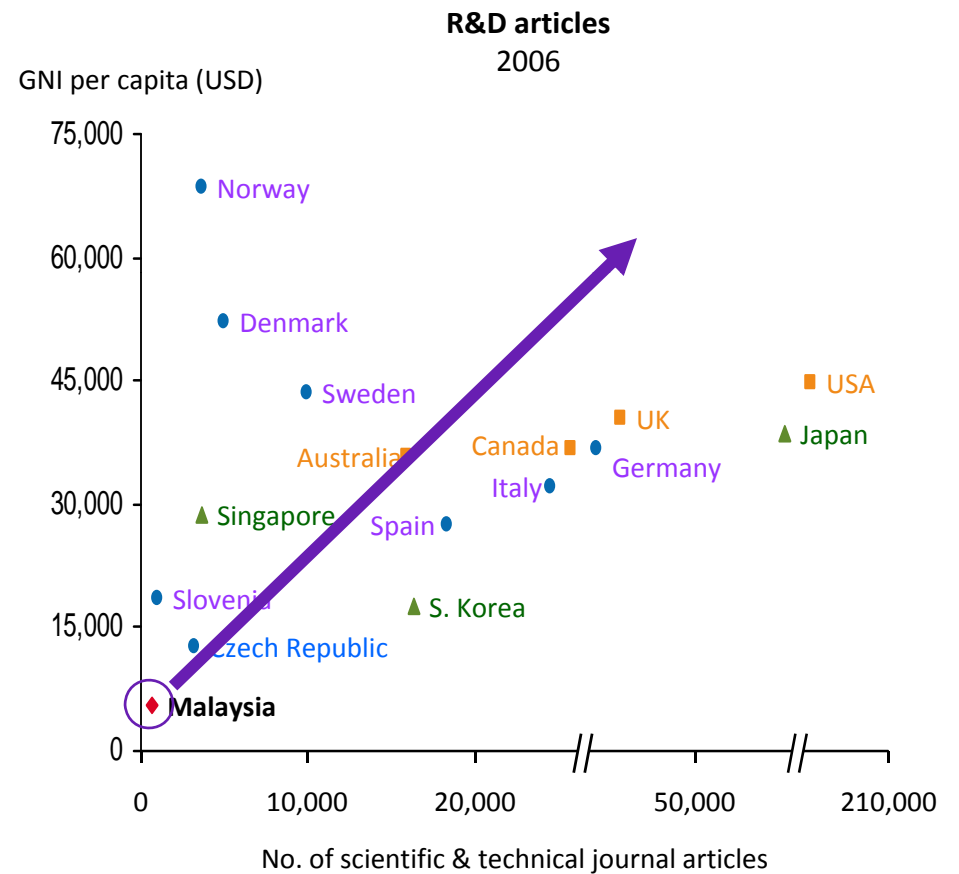
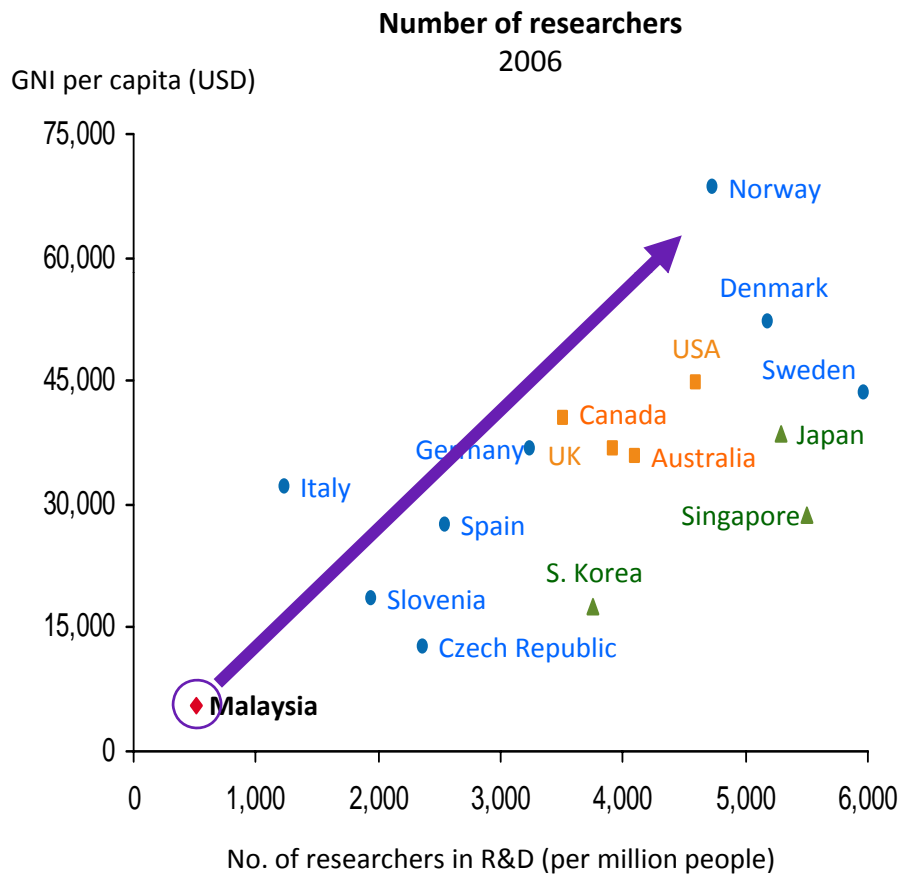
- 2** Need to shift from dependency on low skilled foreign worker to contribution by high skilled foreign worker

350,000 foreign talent is targeted under talent attraction in NKEA Greater KL

- 3** The quality of our labour force need to be at par with other high income countries

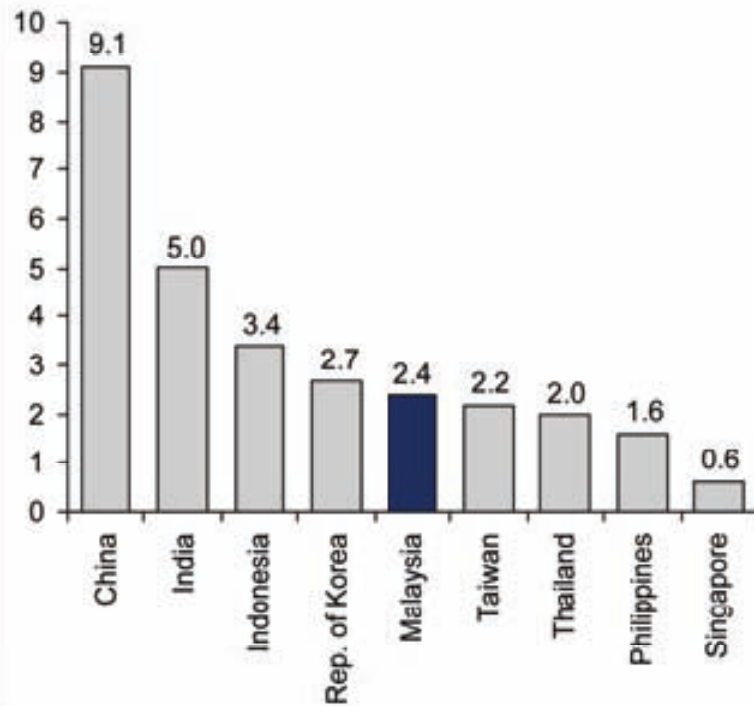


The economy must be driven by technology and innovation

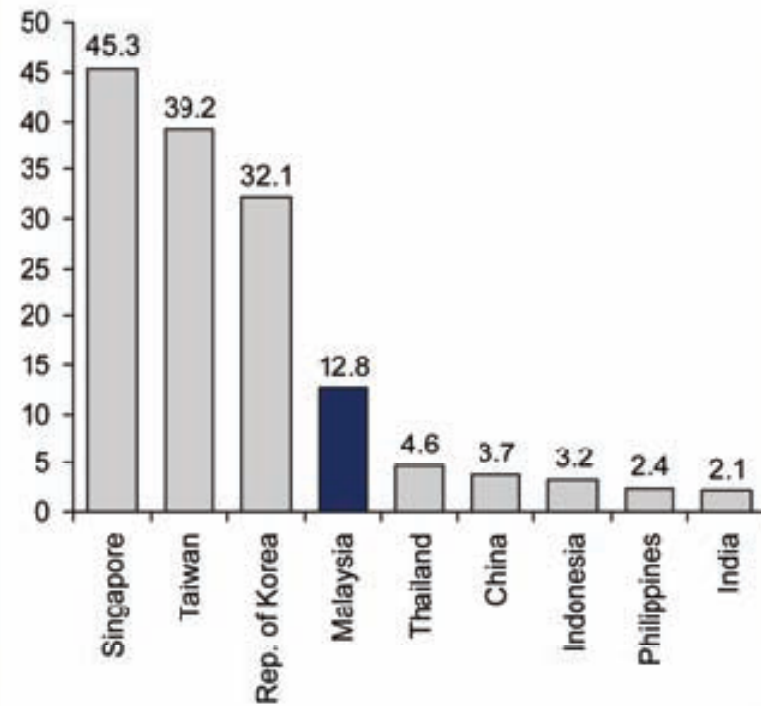


High productivity will lead to high income while remaining globally competitive

Productivity growth¹ for selected Asian countries (2000-2009), (%)



Productivity levels 2009, US\$ Thousand per worker



¹ At 2000 constant prices

Source: 10th Malaysia Plan



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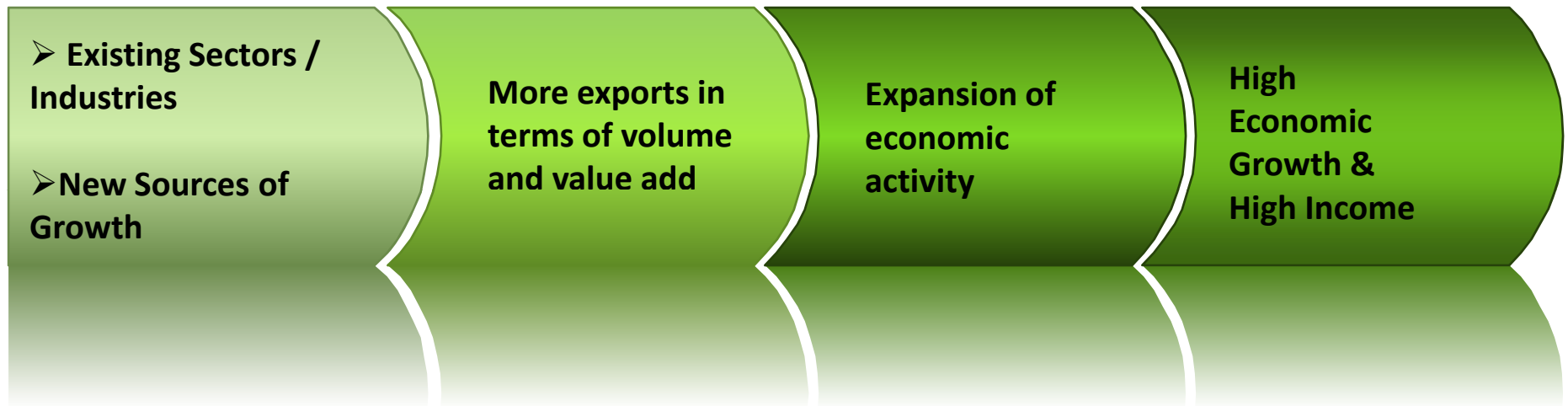
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Expansion of the economy will come from both existing and new sources



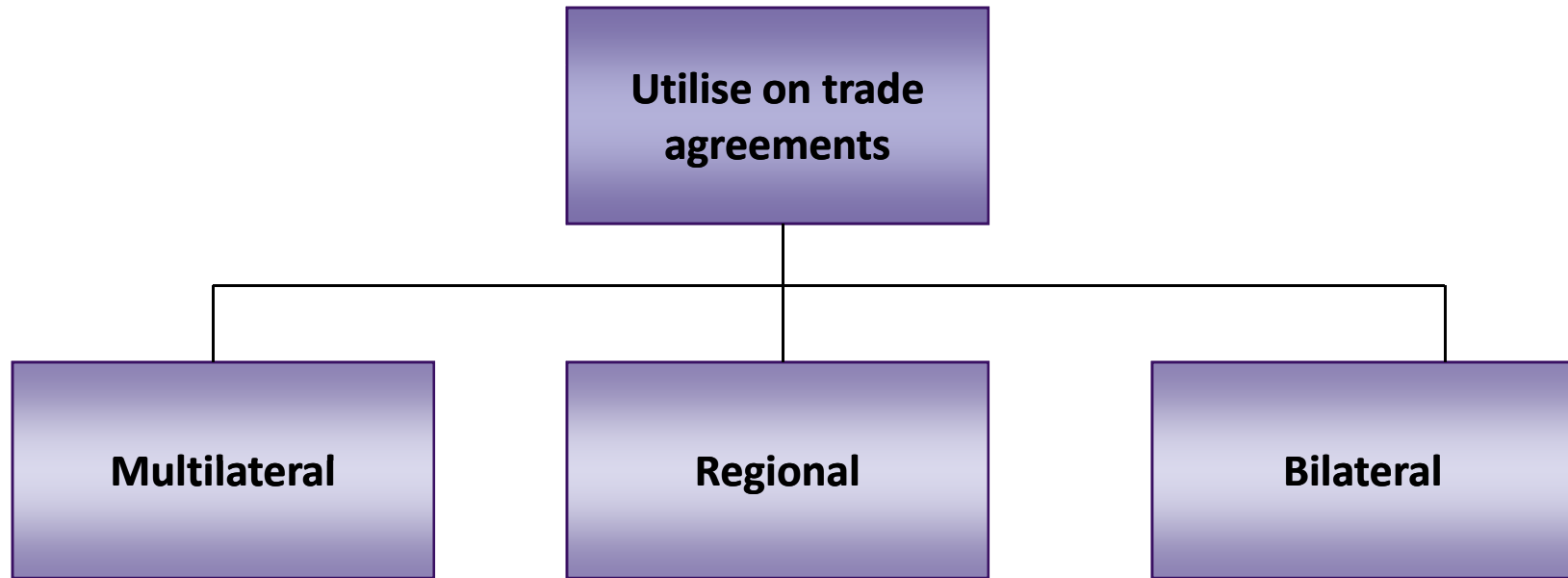
NKEA industries are our sources of growth, but we cannot just look at projects without building the underlying comparative/competitive advantage

Competition in the global market is no longer based on price but on productivity, quality and services

Expansion of economic activity will create spillovers which will further spur private consumption and investment

Our target is to achieve minimum 6% GDP growth per annum for the next 9 years

Utilise on trade agreements to increase exports





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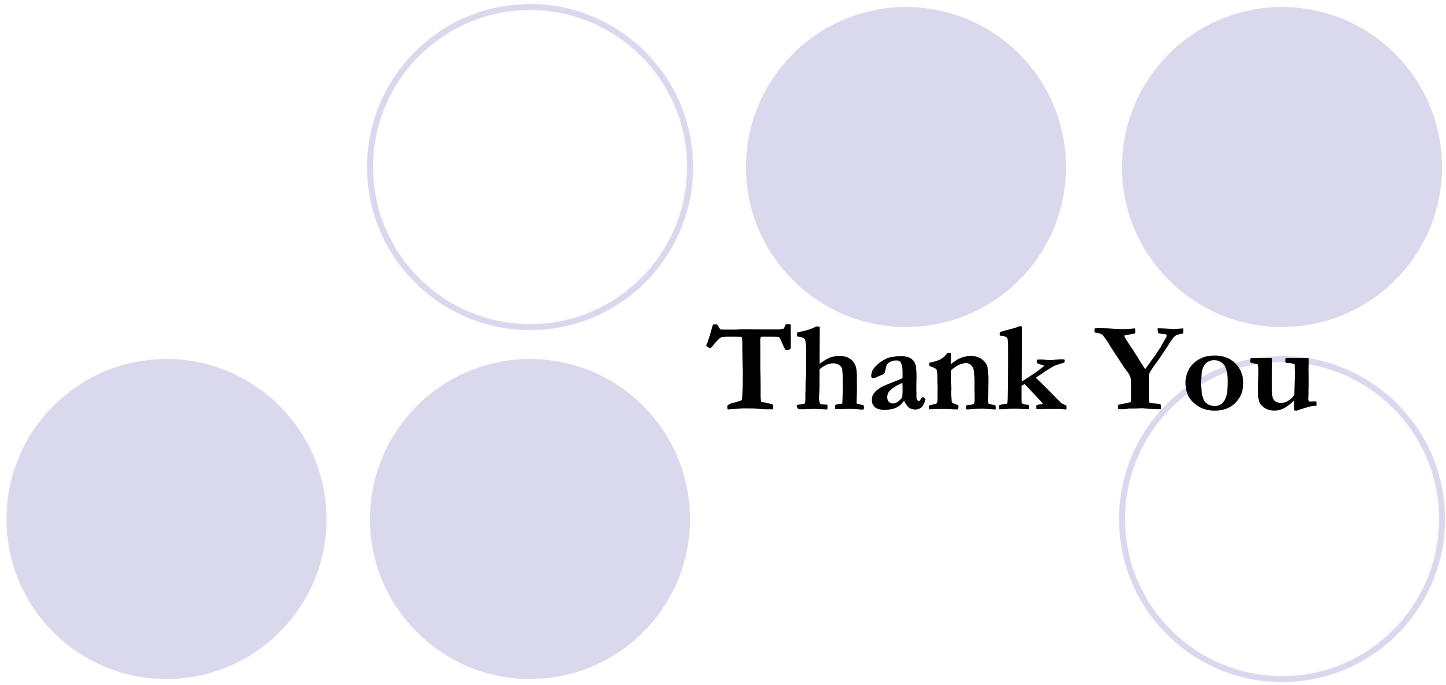


Conclusion

High Income Economy needs transformation



- Improvement in economic governance to increase efficiency and investment.
- Expanding economic activities will create jobs (high paying ones).
- Benefits will be felt if there is productivity improvement compensated by higher pay.
- Educational improvement at all levels – higher education, technical and skilled work.
- Targets for TFP improvement?



Thank You