



# THE MALAYSIAN ECONOMY & THE ROAD AHEAD: SOME THOUGHTS & ISSUES\*

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\* The views and opinions expressed are personal

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- Malaysia's Economic Transformation Programme (ETP) provides ambitious strategic direction and a specific roadmap to 2020. Achievement is imperative and more thinking needed to ensure goals and processes remain vigorous and on-track.

### Cross-Cutting Issues

- Progressive achievement of ETP will cause changes – some positive and supportive, others less so. ETP needs to recognise more explicitly relationships with rest of government and with the rest of the economy and society.
- Issue #1: Institutional: Need to ensure greater alignment of interests (agent-principal), elimination of rent capture, free-rider and moral hazard problems. Fundamental to resolution is de-politicisation and restoring arms-length administrative and legal checks and balances.

- Issue #2: Interdependencies. Transformation of the economy will require, and in many cases be stymied by, transformation of markets for goods and services, labour, finance and balance of payments.
- Issue #3: Inclusiveness. Urgently need a new robust and systemic framework to build social capital and roll-back disparities – in income, opportunities, skills, etc. – without returning to previous models, practices and discourse.
- Issue #4: Innovation. Innovation is the driving force behind transformation, not just factors but the ecosphere. Have yet to see emergence of a cadre of capable technocrats rising to top leadership.

- Issue #5: Integration. The Malaysian economy has always been open but not always integrated. Predominant thinking is still of closed economy. ETP focus on GNI is a start but must take more account of external relationships.
- Issue #6: Integrity. ETP successes must not fall victim to trust deficits. Institutional reforms can help but ultimately successes must be seen to be consistent with economic efficiency, social benefit and values and norms.

Better nesting of the GTP into ETP would help facilitate its achievement. So would reformulation of KPIs to ensure they more accurately track effectiveness.

## Specific Issues

- Rise of non-tradable sector (rising real wages, interest rates, exchange rates and decline in productivity)
- Management of business (counter-party) and financial risks of large front-loaded projects especially given political
- Critical analysis of foreign labour taking into account not just direct benefits but also positive and negative externalities
- Engineering energy, water, food and environmental sustainability in a greater way into ETP
- Greater linkage of ETP with increasing obligations created by economic partnership and free trade agreements