



Chapter 1

1MALAYSIA: CHARTING DEVELOPMENT TOWARDS A HIGH-INCOME NATION



Kuala Lumpur International Airport

Malaysia is emerging strongly from the global financial crisis. Gross Domestic Product (GDP) growth of 10.1% in the first quarter of 2010 represents the fastest quarterly growth in 10 years. Looking ahead towards 2020, the challenge is to sustain the momentum of robust growth. Our goal of high-income status by 2020 requires, among others, achieving an average GDP growth of 6.0% per annum during the Tenth Plan Period. The reality is that this target cannot be achieved without a comprehensive economic transformation. Worse, failure to transform the economy puts the nation at risk of relative decline, as many developing countries are fast catching up. While the economy is currently buoyant, we can ill afford to be complacent because the proverbial iceberg may be melting.

Malaysia is, undoubtedly, at a critical juncture in its developmental journey. The imperative for change is driven by two major factors: First, changes in the global competitive landscape; and second, past successful strategies are proving inadequate for the journey from middle to high-income.

In terms of the global competitive landscape, Malaysia, as a nation, currently faces far greater competition than ever before. We have begun to lag in terms of our ability to drive growth in foreign direct investment (FDI) and exports, compared to our regional peers, as shown in *Chart 1-1*. During

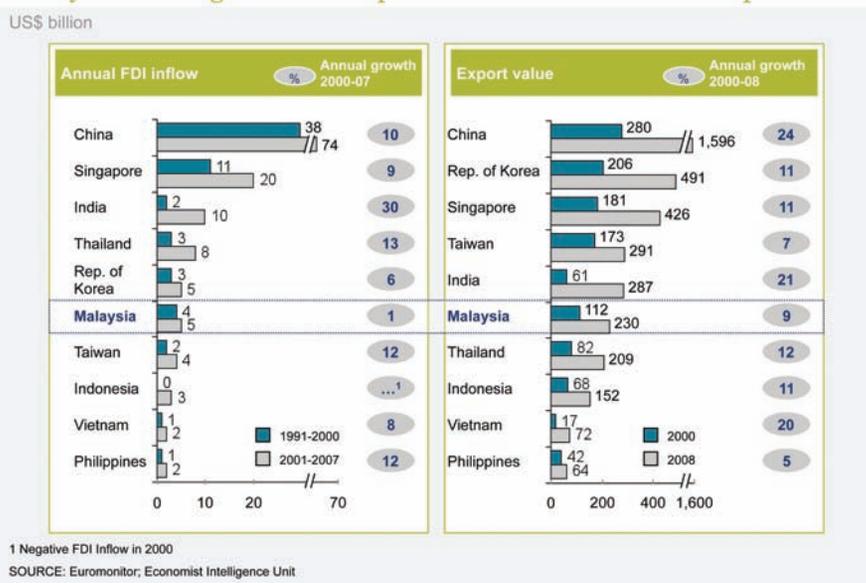
the early phase of industrialisation, particularly in the 1980s, Malaysia faced much less competition in attracting FDI, partly because few countries were then having as open an economy in terms of trade and investment policies. But today openness is the norm. Globalisation has made the world increasingly smaller and flat. When pursuing a particular FDI project, for example, Malaysia often finds itself competing, not just against countries in the immediate region, but also against those in South America and Eastern Europe.

The global economic outlook remains uncertain. Key risk factors include structural issues such as continued high unemployment in developed nations, the continued risk of commodity price volatility and the financial crises in Southern Europe. Hence, not only is competition more intense, the potential weakness in global growth implies that there may also be less trade and investment available for emerging countries.

The global financial crisis has hastened the shift in the balance of global economic power to Asia. However, this trend does not automatically translate into gains for Malaysia. Economic power naturally gravitates towards the larger regional economies, particularly China, India, and Indonesia. Compared to Malaysia, these countries have the advantage of scale, both in terms of cost and size of domestic markets.

Chart 1-1

Malaysia is facing intense competition for investment and exports



As an economy, Malaysia risks getting caught in a middle-income trap, being neither a low cost imitator nor a high value add innovator. Strategies, which were successful in driving our transformation from a poor country, reliant on rubber and tin at independence, into a diversified upper middle-income economy, seem ill equipped for the next stage of our developmental journey. The economy appears to have reached the point of diminishing returns.

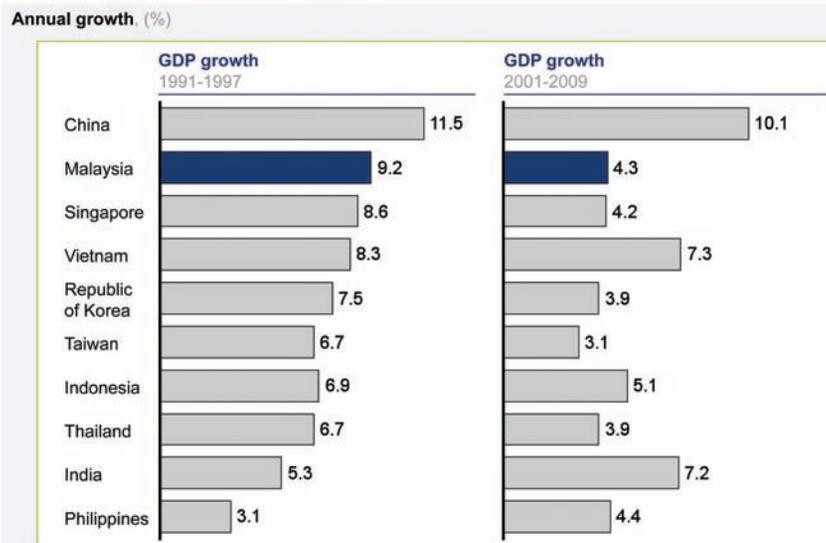
The Republic of Korea, which started with a lower

Gross National Income (GNI) per capita in 1970 of US\$260 compared to Malaysia's US\$380 has transformed its economy to pull far ahead of Malaysia. By 2009 the Republic of Korea's GNI per capita grew to US\$21,530 almost triple Malaysia's per capita GNI of US\$6,760.

Over the last decade, Malaysia's momentum of growth has noticeably slowed, as shown in *Chart 1-2*, while the growth rates of several countries in the region have improved. The slowing momentum of growth is largely attributable to the lacklustre

Chart 1-2

Malaysia enjoyed strong growth in the past, but has lost momentum since the Asian Financial Crisis



SOURCE: World Economic Outlook (April 2010), International Monetary Fund

performance of private investments, which has fallen from an average of close to 25% of GDP through the 1990s to an average of about 10% of GDP over the past decade. Achieving high-income status by 2020 requires double digit growth in private investments, which is ambitious compared to the estimated growth of only 2% per annum over the Ninth Plan Period. Over the past decade, Malaysia also experienced a net outflow of capital—both in terms of financial and human capital.

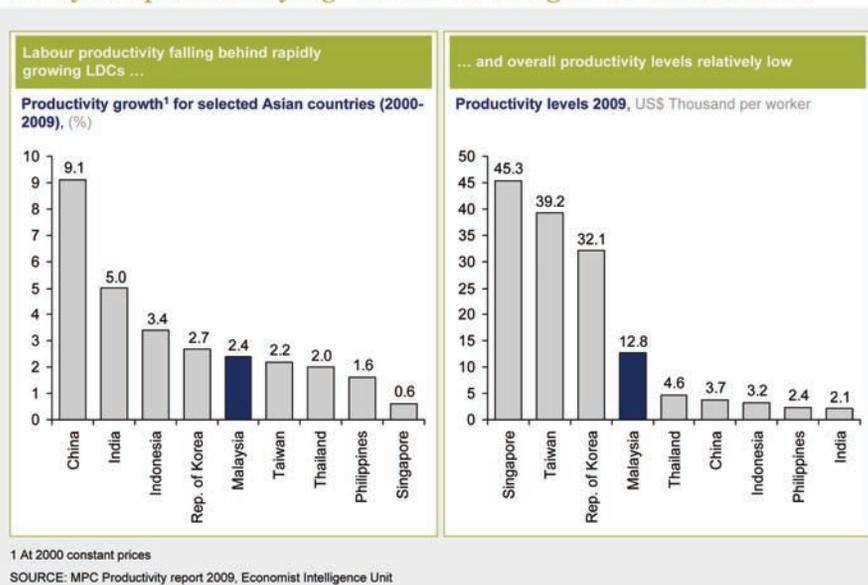
The issue of talent is critical given it is the most

important ingredient in Malaysia's strategy to become a high-income, knowledge intensive and innovation-led economy. Intertwined with human capital is the issue of productivity. Malaysia's labour productivity growth is falling behind. More significantly, productivity levels are significantly below that of high-income Asian economies, as shown in *Chart 1-3*.

Malaysia's transformation since independence, from a poor country to an upper middle-income country was, in itself, a noteworthy success

Chart 1-3

Malaysia's productivity lags behind Asian high-income economies



as highlighted in *Box 1-1*. However, our past success is no guarantee that we can continue with the momentum towards becoming a high-income economy by 2020. While a handful of countries were able to grow all the way to high-income status, many middle-income countries lost their growth momentum due to outdated policies that may have been appropriate during an earlier period.

Carrying on with the status quo is not an option. It will only put Malaysia at risk of being overtaken by other countries, just as we had overtaken others in

the past. Vision 2020 should not be viewed merely as a lofty goal, but more as an imperative to remain relevant. We are at risk of not only being caught in a middle-income trap, but also of being squeezed in the middle between faster growing developing nations at one end and by developed nations expanding into new markets at the other end. Vietnam, for example, is already near the take-off stage and could technologically leapfrog over Malaysia. At the same time, in a post-crisis environment, developed nations are increasingly entering regional markets in direct competition with Malaysia.

Box 1-1***The Growth Report***

The Growth Report (2008) by the Commission on Growth and Development celebrates the success of Malaysia as one of only 13* countries that successfully sustained growth of more than 7% over at least 25 years since 1950. Fast and sustained economic growth is possible, but clearly not easy given only 13 economies have thus far achieved it. The sample of countries is diverse, both in terms of size and resource endowments. The Growth Report highlights that notwithstanding the idiosyncrasies of each, these success stories had five common characteristics:

- Openness to the global economy, in terms of exploiting global demand and importing ideas, technology and know-how;
- Macroeconomic stability: maintaining modest inflation and sustainable public finances;
- Future orientation, exemplified by high investments and savings;
- Markets as a basis for resource allocation and resource mobility to facilitate creative destruction and structural transformation; and
- Capable and credible leadership committed to growth and inclusiveness.

The Growth Report highlighted the absence of any one single growth formula or orthodoxy. While markets were necessary to allocate resources, it was often tempered by pragmatic governments. Therefore, economic reform was typically pursued on an experimental approach, underpinned by institutional capabilities. Reform was often coordinated by small dedicated teams of highly qualified technocrats, which reported to the highest levels of leadership. The Growth Report emphasises the importance of communicating a credible vision of the future and strategy for getting there because citizens are being asked to forgo consumption today in return for higher standards of living tomorrow.

Of the 13 high growth countries, six eventually achieved high-income status. But this is uncommon. For a large group of countries, including many in Latin America, growth slowed markedly at middle-income. The Growth Report sets out that, as wages rise, the comparative advantage in labour intensive industries is eroded. Instead of consuming resources to support labour intensive

Box 1-1

sectors, investments should be made to upgrade skills across the spectrum of employment. Otherwise, the disappearance of unskilled manufacturing jobs will leave less skilled workers stranded without good employment. Hence, middle-income countries need to transition policies to support the evolution from a labour intensive to knowledge intensive economy. This includes letting go of policies that had been previously successful.

[* The 13 countries are Botswana; Brazil; China; Hong Kong, SAR; Indonesia; Japan; Republic of Korea; Malaysia; Malta; Oman; Singapore; Taiwan, and Thailand]

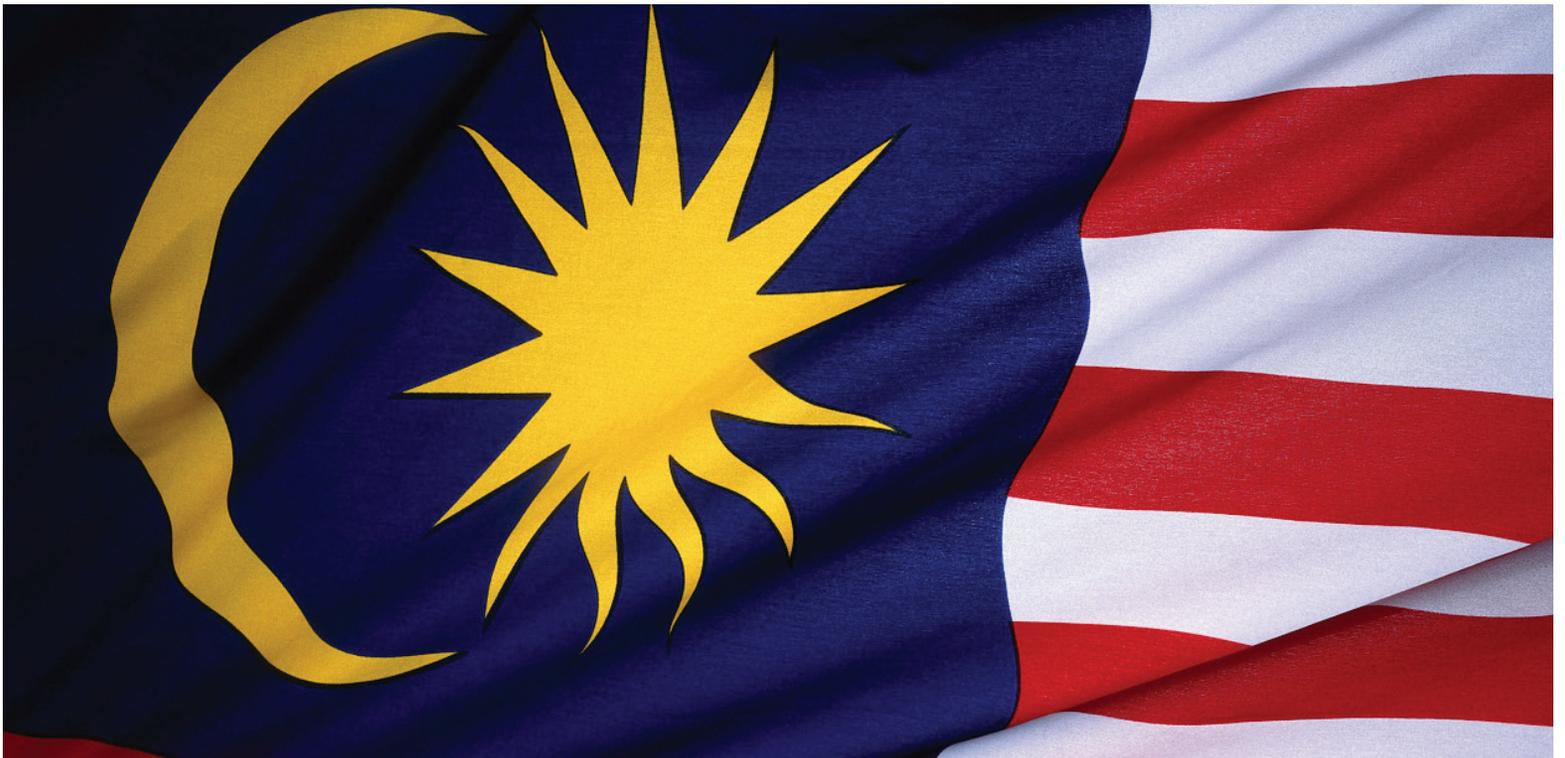
We have no choice, therefore, but to forge ahead. A new economic model is necessary for Malaysia to progress and join the league of high-income nations. A paradigm shift is required, especially in terms of national economic strategy and public policy. The transformational nature of change requires, in our collective selves, the sense of urgency for change. We need to see the reality for what it is: we are on a burning platform.

We are, indeed, at a critical phase in the nation's economic transformation towards Vision 2020. We can succeed and become a truly developed nation if we put our hearts and minds to it. We have encapsulated the central themes of the Tenth Malaysia Plan in 10 Big Ideas. These 10 Big Ideas, if vigorously and consistently implemented, will see Malaysia through these challenging times and enable the nation to be a high-income economy and developed nation by 2020.



10 BIG IDEAS

- 1** Internally driven, externally aware
- 2** Leveraging on our diversity internationally
- 3** Transforming to high-income through specialisation
- 4** Unleashing productivity-led growth and innovation
- 5** Nurturing, attracting and retaining top talent
- 6** Ensuring equality of opportunities and safeguarding the vulnerable
- 7** Concentrated growth, inclusive development
- 8** Supporting effective and smart partnerships
- 9** Valuing our environmental endowments
- 10** Government as a competitive corporation



1. INTERNALLY DRIVEN, EXTERNALLY AWARE

Malaysia cannot insulate itself from global developments, whether in terms of global economic cycles, greater competition or higher commodity prices. We do not have the requisite resources to completely or even substantially shield the country from global trends. In any case, attempting to do so would be counterproductive as it would only exacerbate an inevitable adjustment.

Thus far, Malaysia's development has been largely fuelled by export-led growth. However, globalisation has increasingly intensified competition and has sharpened the distinction between winners and losers. This is not the time to withdraw but to accept and embrace the rules of the game in terms of global competition. It will require greater effort to ensure that Malaysia continues to be a beneficiary of globalisation. This is the essence of being internally driven and externally aware. It requires a unified effort and policy alignment towards a relentless pursuit of global competitiveness and economic growth.

In this context, the concept of 1Malaysia encapsulates the economic imperative to unite and optimise our collective resources as a nation to compete and cooperate for our place in the global community. Transformation often involves some temporary short term economic dislocation. Hence, the full commitment and drive of all stakeholders, in terms of the rakyat,

businesses and public sector, is required. Potential short term dislocation will need to be viewed as an investment towards medium term and sustainable gains in higher income and quality of life for all. Success would be achieving Vision 2020 in a holistic sense, not just higher income and quality of life but also achieving developed nation status in a manner consistent with our cultural values.

The pursuit of competitiveness and growth will translate into implications on policy priorities and resource allocation under the Tenth Plan. There are clearly tradeoffs in terms of policy objectives, but the pressures of global competition necessitate minimising the constraints on pursuing competitiveness and growth.

Specific policy initiatives to be undertaken towards driving the competitiveness of the domestic economy include the implementation of Competition Law, removal of distortionary price controls and advancing liberalisation, especially in the services sector. Continued emphasis will be given to tradeables and export orientated sectors, in addition to services that support trade. The Government will continue to review and modernise regulations, such as labour laws, towards facilitating a well functioning market economy where appropriate price signals will lead to efficient allocation of resources.



Priority will be given to regulations that can materially improve the ease of doing business in Malaysia, towards facilitating greater private investments and enabling the private sector to be the engine of growth. The Government will also support private sector activities through facilitating availability of

funding, particularly in terms of supporting micro-enterprises, venture capital for innovation, and export related financing. At the same time, the focus on growth will include prioritising public sector investments with high spinoff potential, particularly in the strategic sectors.

2. LEVERAGING ON OUR DIVERSITY INTERNATIONALLY

The concept of 1Malaysia is more than just about racial harmony and unity in the country. Malaysia's ethnic diversity and cultural heritage should be viewed as a unique asset with significant competitive value. The three major ethnic groups provide a natural linkage to China, India and Indonesia, the three largest and fast growing economies in our region. Islam, as the official religion, links Malaysia with the Organisation of

the Islamic Conference (OIC), including resource rich Gulf states. In the context of an increasingly networked global economy, our cultural endowment provides a competitive advantage to build greater trade and investment linkages. We must therefore leverage 1Malaysia beyond our boundaries.

The momentum of global growth is gravitating

Box 1-2

1Malaysia in the context of Islam

The Holy Quran teaches us:

O mankind! We created you from a single pair of a male and a female, and made you into nations and tribes, that you may know each other (not that you may despise each other). Verily the most honoured of you in the sight of Allah is he who is the most righteous of you. And Allah has full knowledge and is well acquainted (with all things).

Al-Hujarat (49:13)

This verse affirms that all mankind are creatures of Allah, the descendents from one pair of parents. The various tribes, races, and nations that exist today are simply convenient labels by which we describe and see each other as human beings. Before Allah we are all one, and he who gets the most honour is he who is most righteous among us.

This divine universal lesson is a guide on how we should live together and learn from each other. The concept of 1Malaysia, which incorporates this Islamic precept, promotes unity that is anchored on a set of universal values. It is only through humility and mutual respect of the differences between us that we can be better than the sum of our individual strengths. That is what we need as a nation in charting a common path forward. That is 1Malaysia.

to Asia, and Malaysia lies at the centre of Asia. We must fully leverage on our strategic geographical location, given our proximity to fast growing markets. As a relatively small and open economy, facilitating greater global and regional economic integration is key to strengthening competitiveness. Under the Tenth Plan, Malaysia will increasingly focus on new fast growing markets, particularly in Asia and ASEAN. Key initiatives include trade promotion, enhancing regional connectivity (such as through extending the regional network of flight routes and enhancing broadband connectivity) and regional integration through trade agreements. This will be undertaken in conjunction with strengthening links with traditional export markets, such as Australia, Europe and the United States (US).

The Government will continue to support Malaysian companies to emerge as regional champions and assist in opening new markets. Both the Malaysian Investment Development Authority (MIDA) and Malaysian External Trade Development Corporation (MATRADE) have been empowered to secure new investment





and trade opportunities. At a government-to-government level, efforts to deepen collaboration will be intensified, specifically in undertaking infrastructure projects. Facilitating Malaysian companies to undertake road projects in India and leveraging on China's expertise for Malaysia's railway infrastructure are two examples of this. The Government will also pursue bilateral collaboration in jointly undertaking investments. In this respect, 1Malaysia Development Berhad has entered into Memorandums of Understanding with the State Grid Corporation of China and also Qatar Investment Authority to jointly explore investment opportunities in Malaysia.

We need to leverage not only on Malaysians in the country but also those outside. The Government will establish a Talent Corporation, which will have as one of its key functions, the task of actively sourcing top talent including among the Malaysian diaspora. Establishing links with the diaspora provides additional resources for advisory roles, international business networks and assistance for Malaysian companies entering overseas markets.

3. TRANSFORMING TO HIGH-INCOME THROUGH SPECIALISATION

At Independence, Malaysia was but a poor country reliant on rubber and tin. Malaysia's success in transforming itself from a poor country at Independence to a high middle-income economy today, was driven largely by a deliberate sectoral diversification strategy. Initially, competitiveness across multiple sectors could be supported by a generally low cost base environment. However, an excessively diverse sectoral strategy is no longer sustainable, given Malaysia can no longer rely on low cost as a competitive advantage. Further, today's globalised economy, with regional production networks and greater regional integration, creates competitive pressures for greater specialisation.

The next phase of transformation, from a middle-income to high-income nation, requires a shift towards higher value-add and knowledge intensive activities. Competitiveness in higher value-add activities necessitates specialisation, in terms of having a critical mass and ecosystem of firms and talent to drive economies of scale. A shift from an initial phase of sectoral diversification towards specialisation in the subsequent phases of development is consistent with the transformation journey experienced by high-income countries, such as the Republic of Korea and Taiwan. Malaysia's relative size and resources further limits the number of areas that its economy can specialise in and be truly globally competitive.

Sustaining industries that cannot be competitive risks crowding out competitive sectors, especially given finite resources, such as the availability of gas. Tough choices are needed against tough competition. The drive towards creating a competitive domestic economy will provide the environment for a natural process of creative destruction. Whilst the growth in GDP may be measured up in the macroeconomic treetops, all the action is in the microeconomic undergrowth, where new limbs sprout and dead wood is cleared away.

The Government has a key role to play beyond creating a facilitative environment in terms of also supporting new and competitive growth sectors by providing the policy framework, human capital development, enabling infrastructure and supporting the development of industrial clusters. In line with a private sector led economy, the Government's role is not to pick winners but rather to accelerate and facilitate emerging specialisations, especially through co-investments with industry in terms of skills training, Research & Development (R&D) and enabling infrastructure.

Therefore, under the Tenth Plan, the Government will focus its resources towards prioritising specific National Key Economic Areas (NKEAs) as part of the strategy towards greater

specialisation. Further, within each NKEA, there will also be specialisation in terms of subsectors. For example, the Electrical and Electronics (E&E) sector, as an NKEA, is a broad sector, and requires subsector specialisation, such as in the area of opto-electronics and embedded systems.

These areas of subsector specialisation leverage on the presence in Malaysia of leading global firms and talent concentrated in these subsectors. In general, this reflects the thrust of the specialisation strategy to build on existing strengths and core competencies. Diversification, if any, will relate to broadening the product space within these areas of specialisation and in terms of other subsectors, which are able to leverage on the same competencies and skill sets. E&E capabilities, for example, were compatible and hence facilitated the development of solar panel and medical devices industries in Malaysia.

A recurring theme across NKEAs in the context of specialisation is the focus on quality and strengthening the value chain. This emphasis on quality as a strategy is reflected for example in terms of international accreditation of healthcare providers, targeting higher value tourists, developing E&E centres of excellence and raising the quality of education providers. Strengthening the value chain is consistent with exploiting

growth opportunities in oil and gas services and downstream processing of food and palm oil.

To support the specialisation strategy and NKEA priorities, the Government will, in parallel, drive reform in the major enablers for economic transformation along the value chain. These include driving productivity and innovation, nurturing and attracting top talent and developing clusters with agglomeration economies.

4. UNLEASHING PRODUCTIVITY-LED GROWTH AND INNOVATION

In the transformation from low to middle-income, Malaysia's economic growth was driven predominantly by factor accumulation — capital (investments), energy (cheap fuel) and labour (both domestic and foreign but largely low skilled). A factor driven growth model is no longer sustainable, given the intensified competition for FDI and talent, in addition to finite natural resources. Further, this model is inconsistent with the economic structure required for a high-income economy based on higher value-added activities. A transformational shift to higher value-added activities requires productivity growth. The income of Malaysians can only grow in effective terms through sustained productivity improvements.

Thus, under the Tenth Plan, special emphasis will be given to enablers of productivity, specifically:

- Focusing on skills development, especially in terms of upskilling the existing work force to facilitate industries to move up the value chain;
- Promoting the development of concentrated industrial clusters and supporting ecosystem towards enabling specialisation and economies of scale;
- Increasingly targeting investment promotion

towards investment quality (as opposed to just quantity), which support higher value add activities and diffusion of technology; and

- Increasing public investment into the enablers of innovation, particularly R&D and venture capital funding.

Under the Tenth Plan, the Government is committed to investing in creativity, including efforts such as stimulating entrepreneurship, revamping school curriculum, focusing on R&D and promoting availability of risk capital. The Government will provide a larger pool of funds for venture capital, especially on a *Mudharabah* basis (risk sharing) through co-investment with private sector funds. The Government will target to increase R&D expenditure during the Tenth Plan period through a combination of greater public R&D funding combined with facilitation support for private sector R&D.

A review of bankruptcy law will be undertaken on the premise that innovation requires an environment that accepts failure, promotes a diversity of views and gives entrepreneurs a second chance. To promote innovation through knowledge-based small enterprises, regulatory flexibility will be accorded for companies with five or less employees.

5. NURTURING, ATTRACTING AND RETAINING TOP TALENT

To be globally competitive and drive an innovation-led economy requires nurturing, attracting and retaining the best talent for Malaysia. Human capital development lies at the foundation of transforming Malaysia from middle-income to high-income.

Towards nurturing top talent, the Government will undertake a comprehensive reform across the entire life-cycle of human capital development, from upgrading early childhood education right through to upskilling the existing adult workforce. Developing and motivating teachers will be the focus towards driving improvements in student outcomes. Schools and principals will be made increasingly accountable for student performance.

Skills training will be given special emphasis under the Tenth Plan to ensure that Malaysia develops the necessary human capital to meet industry's requirements and drive productivity improvements to move up the value chain. Technical education and vocational training will be mainstreamed, with a focus towards raising the quality of qualifications. This is key towards providing a viable alternative to enable individuals to realise their full potential, according to their own inclination and talent.

The Government will also expand programmes involving practical on-the-job training through the vocational dual training system and also through graduate internship programmes. Internships, soft-skill training and job placement initiatives will be targeted towards unemployed graduates.

Reforms will be undertaken with the objective of ensuring that no child is denied the opportunity to succeed. At the same time, initiatives will be undertaken focused on nurturing the best talent and towards supporting the drive for high value-added and knowledge intensive sectors. Initiatives include the establishment of high performing schools and prestigious meritorious scholarships for top performers.

Beyond nurturing, efforts will also be concentrated towards attracting and retaining top talent. Specifically, a Talent Corporation will be formed with the primary mandate to secure the top talent required to drive key economic sectors for the nation. To support this, a more facilitative approach to immigration will be implemented for knowledge workers. At the same time, strategies to promote liveable cities and the development of specialised industrial clusters will provide the environment conducive for top talent.

6. ENSURING EQUALITY OF OPPORTUNITIES AND SAFEGUARDING THE VULNERABLE

The Government's economic development framework continues to be based on a foundation of growth with equity. Just as the nation faces fresh challenges in sustaining its growth momentum, the Government's approach to distribution requires a fresh approach to respond to developments and changing circumstances.

The 1Malaysia concept has at its core, the principle of social justice. This principle necessitates a renewed focus on championing the interests of each and every community, ensuring no group is left behind or marginalised in the course of the nation's development. Social justice in the Malaysian context however requires taking into consideration the respective levels of achievement of each community. Fairness therefore involves adopting a distributional approach in terms of providing additional assistance to disadvantaged groups. Using the analogy of a race, the objective is not to determine the result at the finish line but to ensure that all Malaysians are brought to the same starting line and that the race is fairly run. The distributional policies of the Government will therefore be focused towards ensuring equality of opportunities for all. At the same time, fairness must be pursued to ensure that hard work, ability and integrity are justly rewarded.

The incidence of poverty has been drastically reduced from 49.3% in 1970 to only 3.8% in 2009, with hardcore poverty nearly eradicated, declining to 0.7% in 2009. Therefore, Malaysia can effectively declare victory in its fight against poverty. Pockets of poverty nevertheless remain, both in terms of specific geographies and particular communities. The Government remains committed to transmitting assistance and welfare to the poor and vulnerable. Special programmes will be undertaken to address poverty on a sustainable basis, especially in terms of providing income generating opportunities, such as through agropolitan projects. The face of poverty is no longer purely a rural phenomenon. Hence, specific interventions will also be targeted towards the urban poor, such as through micro credit schemes.

Having largely addressed poverty, the Government's focus in the Tenth Plan will shift towards the low-income segment, specifically the bottom 40%, which consists of 2.4 million households. The strategy for the bottom 40% differs from the issue of poverty, in that it is not a case of dispensing assistance but ensuring that low-income households have the opportunity to enjoy a better standard of living. To facilitate this, a



key thrust is to raise their capacity and capabilities in order to increase their earning potential. Skills training and entrepreneur development programmes will be targeted towards those within the workforce with low-income and low skills. Programmes will also be implemented for those in disadvantaged communities towards inculcating a sense of self-reliance and ownership to achieve personal aspirations.

The objective of the New Economic Policy to eliminate the identification of race with economic function continues to be relevant today. However, in the context of external circumstances and domestic developments, the Bumiputera development agenda needs to be undertaken with a fresh approach. New strategies and instruments will need to be developed towards establishing effective and sustainable Bumiputera economic participation. The new approach will need to be market friendly, merit based, transparent and needs based. Special attention will be given towards Bumiputera in Sabah and Sarawak, as well as the *Orang Asli* in Peninsular Malaysia.

Market friendly mechanisms will be implemented to provide opportunities for Bumiputera to capitalise on pro-growth policies. At the same time, the

Bumiputera development agenda needs to take into account the fact that Bumiputera capacity and capabilities have increased considerably compared to 40 years ago. As opposed to relying on allocations of equity, Bumiputera must leverage on their abilities to participate in the economy in a more holistic, effective and sustainable manner. The priority and focus will be towards building competitive Bumiputera enterprises and also raise the participation of Bumiputera in senior management levels. Support will be provided based on merit, focusing on Bumiputera who have proven their determination and capacity to succeed. The programmes for the development of Bumiputera Commercial and Industrial Community (BCIC) will be segmented, in terms of varying the nature of support based on size of enterprise. Direct assistance and capacity building will be focused on micro-enterprises based on needs whereas for larger Bumiputera companies, support will be merit based.

In assessing the results of the Bumiputera agenda, the metrics measuring economic participation will be reconstructed, to measure wealth in a broader sense, including equity and other asset classes such as property, in addition to measure representation in enterprises and high-income skilled jobs.



7. CONCENTRATED GROWTH, INCLUSIVE DEVELOPMENT

Competition is no longer only between nations but increasingly between cities. Towards transforming Malaysia into a high-income economy, strategy will be focused to build density, develop clusters and specialise in high value sectors. The concentration of firms and talent supports faster economic growth, primarily by reaping the benefits of agglomeration of scale, productivity and innovation. People cluster towards cities as higher density promotes higher wages and economic opportunities. A major factor in driving the increase in average income of Malaysians over the past few decades has been the increasing urbanisation of the population. By 2020 approximately 70% of Malaysia's population will be concentrated in urban areas and, therefore, the challenge is to facilitate this increasing density in cities and urban conurbations, while ensuring that the benefits of agglomeration are not lost to escalating crime, grime and time (congestion).

Liveability of cities will be an important driver in positioning our cities to compete for high-skilled talent on the global stage. Today, people not only gravitate to places where there are employment opportunities, they also gravitate to places that are vibrant and liveable. Therefore, a policy priority in the Tenth Plan will be to enhance the liveability of cities. Major initiatives have been identified under the National Key Result Areas (NKRAs),

particularly to address crime and improve public transportation in major urban centres. Liveability, however, encapsulates a broader concept, in terms of striving for a vibrant environment to live, work and play. Such a holistic approach is important, specifically in the context of attracting top talent to Malaysian cities, in order to drive strategic growth sectors.

The Greater Kuala Lumpur (Greater KL) conurbation has been identified as an NKEA. Major projects and initiatives are planned for the Tenth Plan, towards transforming Greater KL into a leading global city. Specific initiatives include:

- Major new developments will be undertaken including an International Financial District in Kuala Lumpur, redevelopment of the Sungai Besi airport, township development in Sungai Buloh, establishing a world class integrated convention facilities at Jalan Duta and a Malaysia Truly Asia Centre;
- Major investments in public transport include the expansion of the Kuala Lumpur Light Rail Transit (LRT) coverage and the implementation of a high capacity mass rapid transit system. In addition, the network of feeder buses and covered walkways will be extended to provide end to end connectivity for commuters and pedestrians; and

- Urban rejuvenation efforts to restore and protect heritage buildings and to unlock the development value of land such as the Kampung Bharu urban redevelopment effort in Kuala Lumpur. In addition, the Government proposes to introduce en-bloc mechanism to facilitate redevelopment of collectively-owned property and land.

In addition, specific strategies will be implemented for other city conurbations, such as Georgetown, Johor Bahru, Kuching and Kota Kinabalu, particularly in terms of liveability, connectivity and further strengthening localised industrial clusters according to their respective strengths, for example, the E&E cluster in Pulau Pinang and tourism for Kota Kinabalu. Major liveability initiatives include enhancing public transportation and also developments to strengthen the waterfront identity of these cities. A key policy initiative of the Ninth Malaysia Plan was the development of economic development corridors. A refinement under the Tenth Plan would be to focus development on specific clusters within these corridors.

Attempting to spread out production activities across the country is counter-productive, particularly when it is the density of firms and knowledge workers in urban clusters that creates economies of scale and innovation. Hence, the

Government will increasingly focus its resources to strengthen existing clusters and only promote other locations based on the respective strengths and endowments of a particular location.

Nevertheless, whilst growth will be concentrated in cities, development will undoubtedly be inclusive. Persistent differences in urban and rural living standards are neither desirable nor inevitable. Hence, under the Tenth Plan, the Government will continue to emphasise rural development particularly in the context of improving access to education and utilities, connectivity and upgrading rural economic activities. Under the NKRA for rural basic infrastructure, the Government will upgrade roads as well as the supply of water and electricity in Sabah and Sarawak. Domestic integration in terms of connectivity is critical to enable rural areas to leverage on cities as gateways for rural produce and economic opportunities.



Box 1-3

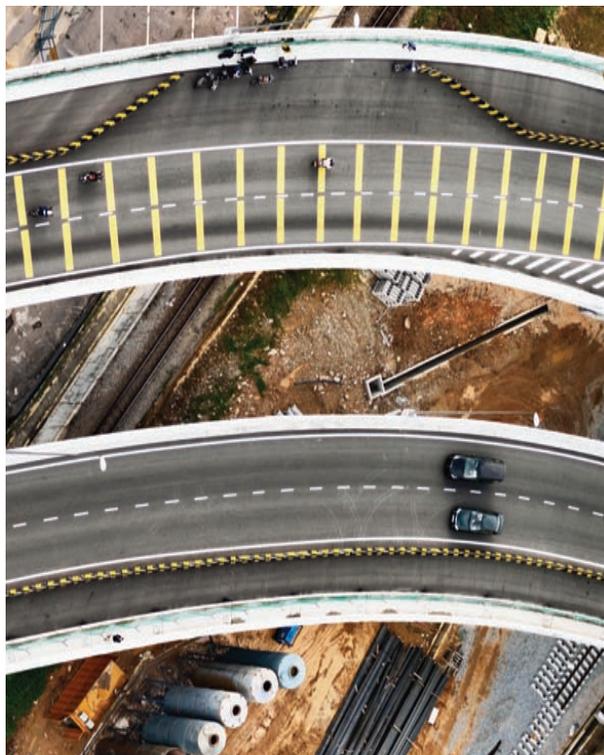
Reshaping Economic Geography

Growing cities, ever more mobile people and increasingly specialised products are integral to development. These transformations bring prosperity, but they do not happen without risks and tradeoffs. A key message in the World Development Report 2009: Reshaping Economic Geography (WDR 2009) is that as economies grow from low to high-income, economic activities become more concentrated spatially. Nevertheless, development can still be inclusive. The way to get both the benefits of agglomeration in urban conurbations and the benefits of convergence in living standards across the country is through economic integration.

WDR 2009 analyses the geography of economic development and integration in terms of three dimensions, as follows:

Density is analysed at a local level in terms of concentration in urban centres for agglomeration benefits. In the Malaysian context, the establishment of the International Financial District in Kuala Lumpur will help establish a critical mass of finance professionals and a concentration of financial institutions, including international Islamic financial institutions;

Distance is mainly considered at a national level, in terms of distance between areas that are economically successful and areas that lag. The policy challenge is to help firms and workers overcome physical distance to successful areas through improving connectivity, such as through improving road infrastructure. For example, the East Coast Highway will help enhance the connectivity of east coast states to the Klang Valley; and



Division is evaluated at an international level, pertaining mainly to the barriers at national borders which impede ease of trade, such as customs procedures. Towards reducing such divisions, the development of Iskandar Malaysia will be further facilitated through initiatives to enhance connectivity to Singapore.

To ensure greater convergence and inclusive development, WDR2009 recommends a focus on reshaping economic geography towards greater economic integration mainly through the following policy levers:

Institutions: policies that are applied universally in terms of coverage, without disadvantaging any region or area. These policies promote inclusiveness by counter balancing the concentration of economic activity in urban areas. Such an approach is consistent with Malaysia's continued emphasis under the Tenth Plan towards ensuring that the provision and standards of public services, especially education in rural areas is on par with urban areas;

Infrastructure: policies that are spatially connective in terms of facilitating the movement of goods, services and people. Thus, maximising the economic spillover from urban centres to the surrounding hinterland. As a key strategy to drive domestic integration, major new rural road infrastructure will be built, particularly in Sabah and Sarawak. This will help ensure mobility of goods and people from the rural areas to urban markets and beyond; and

Interventions: policies that are spatially targeted to address localised issues. Included in the Tenth Plan are specific initiatives for targeted communities, such as assistance with land matters in new villages, improving living conditions in estates, agropolitan projects in rural areas and micro credit for the urban poor.

8. SUPPORTING EFFECTIVE AND SMART PARTNERSHIPS

Effective and smart partnerships, particularly between the public and private sector, will be instituted as a mechanism to drive the economic transformation agenda. The main areas for smart partnerships under the Tenth Plan, include:

- Catalysing and accelerating strategic private investments;
- Partnering to advance industry and economic development; and
- Collaborating to support public delivery and social development.

Catalysing and Accelerating Strategic Private Investments

A key public-private partnership (PPP) initiative under the Tenth Plan will be the creation of a RM20 billion Facilitation Fund to catalyse private investments in nationally strategic areas. The Government will provide infrastructure and assistance, such as through grants or offtake agreements, as a tipping point for viability. Such support will be considered for private sector projects, which offer high economic spinoffs and accelerates the transformation to a high-income economy. An example of a project that the Government provided facilitation support is the High Speed Broadband initiative, which is

due to be completed during the Plan period. Areas to be considered for facilitation support include strategic infrastructure, such as transportation and NKEA sectors, such as education, healthcare and tourism.

The Government proposes to undertake a new wave of privatisations during the Plan period. The emphasis will be towards forging a more equitable sharing of risks and returns with the private sector. This includes undertaking competitive bidding for future toll highways and power plants. In addition, a PPP approach will be undertaken to drive the developments of strategic industry clusters such as the development of industrial parks and incubators. The Government will also co-invest with the private sector, particularly in high growth and strategic sectors, through Government fund agencies such as Malaysian Venture Capital Management Berhad (MAVCAP), Malaysian Technology Development Corporation (MTDC) and Ekuiti Nasional Berhad (EKUINAS).

Partnering to Advance Industry and Economic Development

The Government, instead of picking winners, will support the private sector in driving industry development. Collaboration between the public and private sector in human capital development,

particularly in skills training, curriculum development and internships, will help ensure the supply of talent meets the needs of industry. As an initiative to facilitate industries to move up the value chain, the Government will also initiate co-funding with industry for post-graduate courses, R&D and centres of excellence. To promote the development of small and medium knowledge enterprises (k-SMEs), the Government will provide special financing schemes and skills training and encourage foreign SMEs to set up operations in Malaysia to develop specialised capabilities.

The Government will encourage greater collaboration, particularly between Government-linked Companies (GLCs) and the private sector to pursue overseas opportunities. Private sector-GLC collaboration will also be encouraged in pioneering new growth areas and new markets, where risks are higher and the gestation period is longer. Partnerships between private sector and GLCs would be able to leverage on the respective strengths, namely the institutional longer term approach of the GLCs and the entrepreneurial spirit of the private sector. In the spirit of 1Malaysia, the Government will also promote genuine partnerships between Bumiputera and non-Bumiputera businesses.

Collaborating to Support Public Delivery and Social Development

An open and consultative approach was taken in the formulation of public policy and programmes, especially the Government Transformation Plan (GTP). The Government will support greater collaboration between the public sector, private sector and civil society to enhance delivery of social objectives. Successful partnerships will be extended, particularly between the Government and non-governmental organisations (NGOs) in welfare initiatives and between public and private sector in corporate social responsibility (CSR) programmes, such as in education and environmental conservation. The Government will also work with civil society in areas such as the maintenance of low cost housing and heritage conservation through mechanisms such as matching grants.

9. VALUING OUR ENVIRONMENTAL ENDOWMENTS

There is only one earth and only one Malaysia. It is our duty to safeguard it for our future generations. The Government will ensure that Malaysia's environmental assets and ecological resources are managed sustainably, so that present developmental needs are met without compromising the future. In responding to global climate change, the Government will focus on adaptation strategies to ensure sustainable growth and mitigation strategies to reduce the emission of greenhouse gases.

Malaysia is blessed with a wealth of natural endowments — fauna and flora bio-diversity, oil and gas as well as water, to name but a few. Mainstreaming environmental considerations will be undertaken, particularly in economic planning to ensure sustainability of resources. However, key to sustainability is a proper valuation of our environmental resources, through assessing the opportunity cost and environmental impact of public or private investments.

The biggest risk to sustainability arises from the underpricing of resources, particularly oil and gas as well as water. Thus, during the Plan period, the energy policy will move towards market pricing of gas by 2015 while water tariffs will be restructured towards full cost recovery.

Similarly, there are significant opportunities in

monetising or creating value from environmental endowments. In order to finance and promote sustainability measures, initiatives planned include:

- Introducing Feed-in-tariff to help finance renewable energy investments;
- Providing fiscal incentives and funding for green technology investments;
- Promoting projects eligible for carbon credits;
- Promoting eco-tourism to create commercial value in sustainability;
- Facilitating greater participation of local communities in eco-tourism activities (e.g. fishermen as guides at Kilim Geopark, Langkawi) and bio-diversity protection (e.g. compilation of knowledge on bio-tropical herbs) as a self sustaining means to support environmental conservation. One example of self sustaining conservation is the Tagal System, as described in *Box 1-4*; and
- Initiating public-private CSR initiatives around protection of flagship species (e.g. the Malayan tiger, orangutan, leatherback turtle) as part of broader habitat conservation efforts.



Box 1-4

Tagal System: Overcoming the Tragedy of the Commons

The Tragedy of the Commons refers to the situation where a group of herders sharing the use of a common parcel of pasture land, would result in overgrazing. Each individual herder has insufficient incentive to act sustainably, thus damaging the commons in the longer run, to the detriment of all herders. The metaphor has been extended to explain environmental related problems, such as air pollution, overfishing and deforestation. It suggests that such problems can only be addressed through proper allocation of property rights and regulation.

The Tragedy of the Commons paints a bleak picture on the ability of communities to cooperate for the longer term and greater good. Further in many cases, such as forests and fishing stock, it is not practical to privatise and difficult to enforce regulation. In the ideal case, there should be systems whereby local communities self-regulate commons on a sustainable basis.

Box 1-4

In reality, there are instances across the world of communities that successfully manage communal resources. Factors that promote successful self-management of resources are as follows:

- Resources with definable boundaries such as a specific piece of land;
- Community's dependence on the resource for livelihood, combined with a real threat of losing it without available substitutes;
- Presence of a small community with strong social networks; and
- Procedures in place to incentivise responsible utilisation of the resource and punishment for overuse.

An example of successful self-management of resources in Malaysia is the Tagal system, a Dusun tradition in river conservation, which is currently practised in more than 190 rivers in Sabah and Sarawak. The Tagal system involves the prohibition of fishing in the river for one or two years. It is designed as such by local communities to ensure cleanliness of the river and to maintain a sustainable stock of fish. The success of this system is supported by the following factors:

- Stretches of river that represent a definable resource;
- The river is not substitutable and the community is dependent on the river for fishing and clean water. The economic value of the river to the community is further enhanced by the introduction of eco-tourism;
- The system is practised at a village level, which has a clear social hierarchy with a village head; and
- The incentive for responsible use is provided through the importance of income from fishing and eco-tourism to the community. Any violation of the rules is subject to a reprimand by villagers and *sogit*, a form of fine or penalty determined through Penagalan rules, recognised by the Native Court.

Community based cooperation provides an effective and sustainable approach to environmental conservation. The Government will therefore explore means to facilitate such cooperative mechanisms, including promoting greater participation of local communities and developing income generating activities in eco-tourism. Enabling such successful group-led action is in line with empowering communities towards self-reliance.

10. GOVERNMENT AS A COMPETITIVE CORPORATION

The transformation of Malaysia requires a new approach and a transformation of Government. As the economic and social structure of the country evolves, so must the Government evolve to meet the country's economic and social development needs. As Malaysia emerges as a globally competitive and high-income country, the Government needs to increasingly act like a competitive corporation.

A globally competitive corporation of today clearly needs to be anchored on core values. Likewise, the Government of Malaysia will undertake a transformation on the basis of four key principles, namely a culture of creativity and innovation, speed of decision making and execution, value for money and integrity. These principles will be applied across the Government's priorities as articulated in the 1Malaysia concept, GTP, New Economic Model and the Tenth Malaysia Plan.

Mirroring the priorities of a competitive corporation, the transformation of Government will be focused on:

- **Finances:** both in terms of getting value for money on expenditure and ensuring sustainability of public finances; and
- **Talent and organisation:** ensuring the necessary human capital and organisational structure to meet the needs of the country.

The customer focus of government is reflected in the consultative approach to policy formulation, particularly the GTP, NKRA and NKEAs. In this respect, the Tenth Plan very much represents a plan by the people and for the people. Reform of Government delivery is premised on being customer-centric in terms of providing efficient, timely and convenient services to both the people and businesses.

Malaysia is increasingly subject to global competition, hence the focus on the competitiveness of public delivery. The Government is committed to ensuring Malaysia offers a compelling value proposition as a place to do business. Therefore, the efficiency and timeliness of Government procedures will be benchmarked to international comparisons. Key initiatives to enhance competitiveness include the devolving of authority, which has been implemented in the empowerment of MIDA and autonomy for high performing schools. In addition, performance is being driven increasingly through

- **Customers:** which in the Government's case involves the rakyat and businesses;

- **Competitiveness:** in terms of raising the performance of public delivery;

competition, such as with rankings of schools, police stations and local authorities.

Corporations optimise on finances to maximise profits. In a similar way, the Government will focus on deriving value for money in terms of outcomes. A key initiative involves operationalising an outcome-based approach to planning, budget and monitoring. Focusing on outcomes, promotes greater creativity and innovation towards achieving results.

A key shift in the approach taken for the Tenth Plan is the shift from physical hardware to soft infrastructure, whereby the proportion of development funding for soft infrastructure will be increased to about 40% compared to only about 22% in the Ninth Plan. This shift is consistent with the emphasis on outcomes, for example, moving away from merely building schools, to improving teachers to lift student outcomes. The focus on soft infrastructure is also in line with driving private sector led growth through increasing the allocation for facilitation support, financing businesses, R&D, entrepreneur development and incentives.

As part of the shift from hardware to software, the Government will increasingly shift from

building and operating public services towards buying services from the private sector. For example, in terms of skills training, the modality of buying services provides the Government greater flexibility to respond to changing training requirements and facilitates greater competition between training providers in terms of training outcomes.

The Tenth Plan focuses on sustainability of public finances by managing the balance between supporting growth and a systematic reduction of the fiscal deficit. The continued uncertainty in the global economic outlook necessitates having sufficient fiscal flexibility to respond to any eventuality. To achieve this, the Government will focus on efforts to reduce subsidies, drive efficiencies and transparency in procurement, driving productivity in Information Communications Technology (ICT) and broadening the tax collection base.

Ultimately, the success of the Tenth Plan depends on effective implementation and that in turn, requires the right people and the right organisational structure for the public sector. During the Plan period, a special focus will be given towards attracting top talent for the public sector. A whole-of-government approach involves

being aligned in objectives and cutting across silos to deliver outcomes. The Government structure will be rationalised to shift resources to the highest priorities. Implementation will also be effected through a system of Key Performance Indicators (KPIs) for Ministers and Ministries, which will be cascaded from the national level down to the implementation level of projects at ministries and agencies, with close monitoring and regular reporting back to the Prime Minister. In line with this an Economic Delivery Unit (EDU) will be established under PEMANDU, to drive and monitor an economic transformation programme, anchored on NKEAs and key enablers for the new economic model.

Malaysia has successfully transformed itself from a poor country to a middle-income country. However, we cannot afford to rest on our laurels given the very real risk of decline. There is a great urgency to act. The shift from middle to high income status requires a new economic model. The Tenth Malaysia Plan sets out the key strategies charting the development journey towards developed nation status. Such a comprehensive transformation agenda requires the concerted and consistent effort of all stakeholders – the rakyat, public and private sector. Embracing the spirit of 1Malaysia, united, we can succeed.

