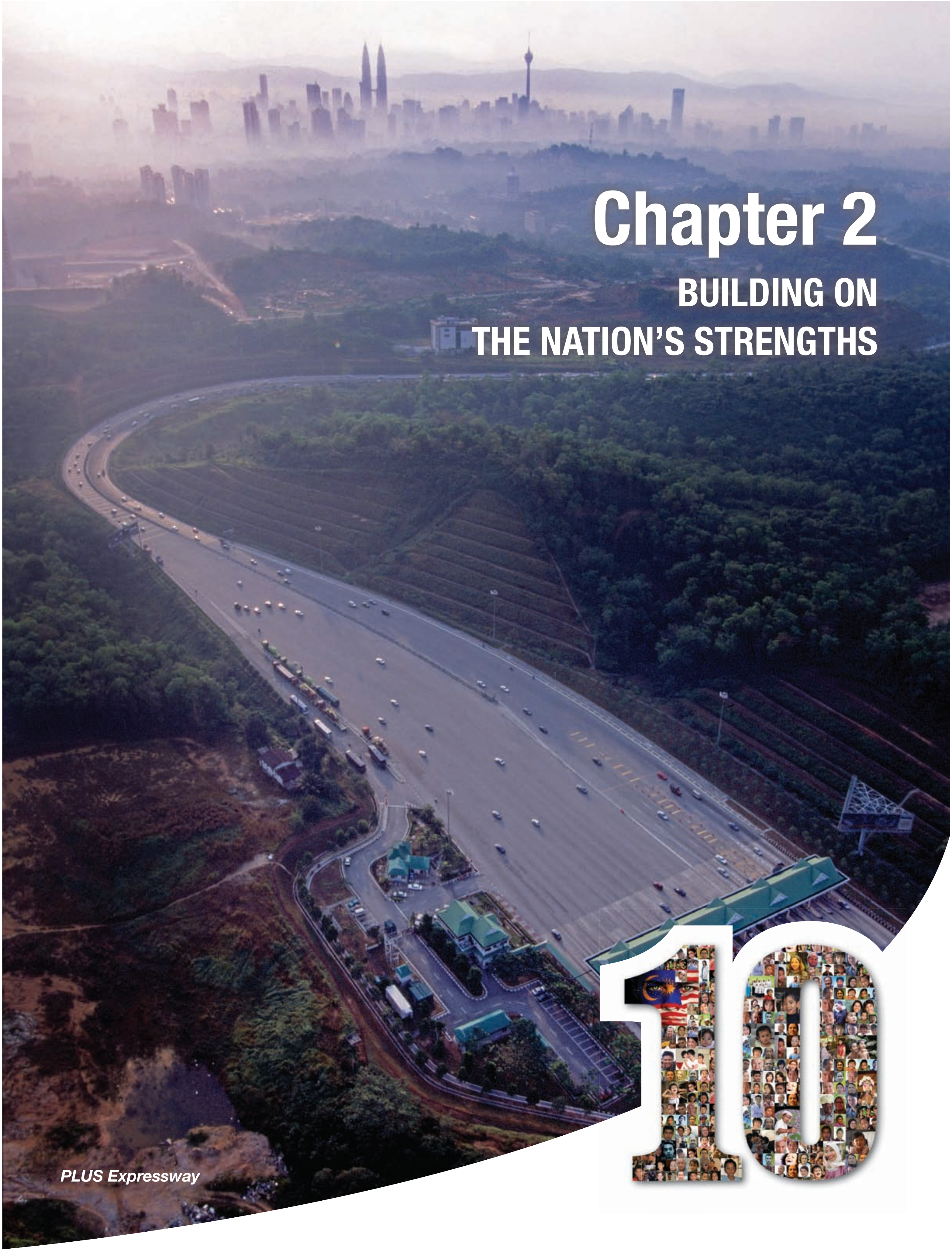
Chapter 2

BUILDING ON THE NATION'S STRENGTHS

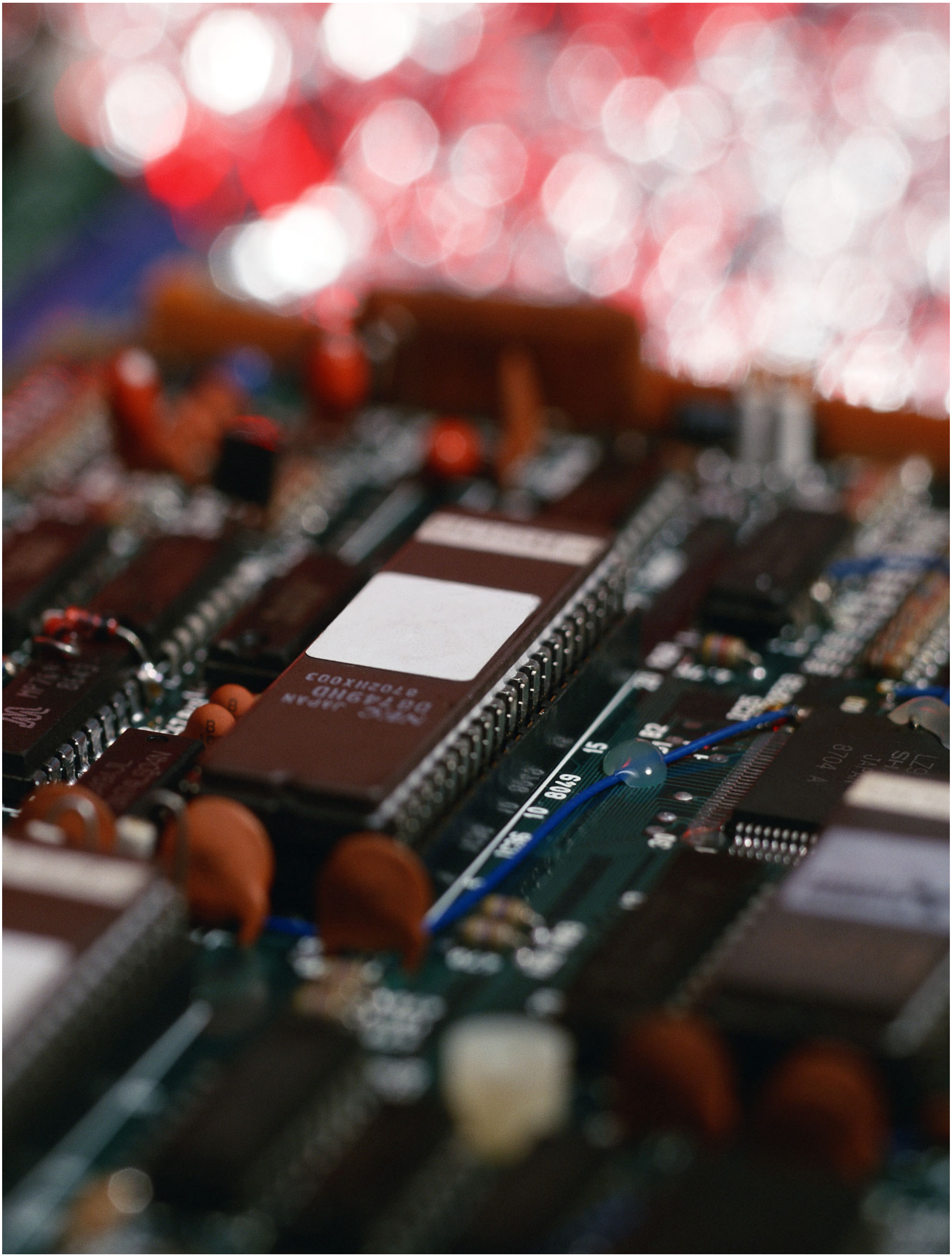


PLUS Expressway

Malaysia has experienced a period of high economic growth over the last few decades, propelling the nation from an agricultural and commodity-based economy to become a prosperous thriving middle-income nation. Malaysia's real Gross Domestic Product (GDP) has grown by an average of 5.8% per annum from 1991 to 2010. This growth rate has helped improve the quality of life for Malaysians and supported widespread advances in education, health, infrastructure, housing and public amenities.

During the Ninth Malaysia Plan period, 2006-2010, the country progressed in the achievement of the National Mission to transform Malaysia into a developed nation by 2020. Though the growth momentum has recently slowed down due to the global economic and financial crisis, public spending through the two economic stimulus packages and accommodative monetary policy have helped the nation recover. Looking ahead, Malaysia is now at an important juncture in its economic development to chart its path towards becoming a high-income economy by the year 2020. For this, the nation will need to build upon the strong platform created by the country's past achievements.

The global economic environment is, however, changing in ways that will make it more challenging to generate high rates of economic growth. There is now slower global economic growth, while competition for investment, trade and talent is more intense. In this context, Malaysia will need to intensify efforts to generate the growth required to achieve its targets under the Tenth Malaysia Plan, 2011-2015.



LOOKING BACK: ACHIEVEMENTS UNDER THE NINTH MALAYSIA PLAN

The recent global economic environment has significantly affected world growth, particularly the advanced economies, notably the United States (US), United Kingdom, European Union and Japan. The global slowdown has in turn affected the Malaysian economy which contracted by 1.7% in 2009. Given the openness of the Malaysian economy, the negative wealth effects of the global crisis on demand and world trade have resulted in a decline in industrial production and manufacturing exports.

Macroeconomic Performance During the Ninth Plan

While growth during the first three years of the Plan period remained strong at an annual rate of 5.7%, the contraction in 2009 lowered overall growth for the whole Plan period, which registered an average growth of 4.2%, as shown in *Chart 2-1*.

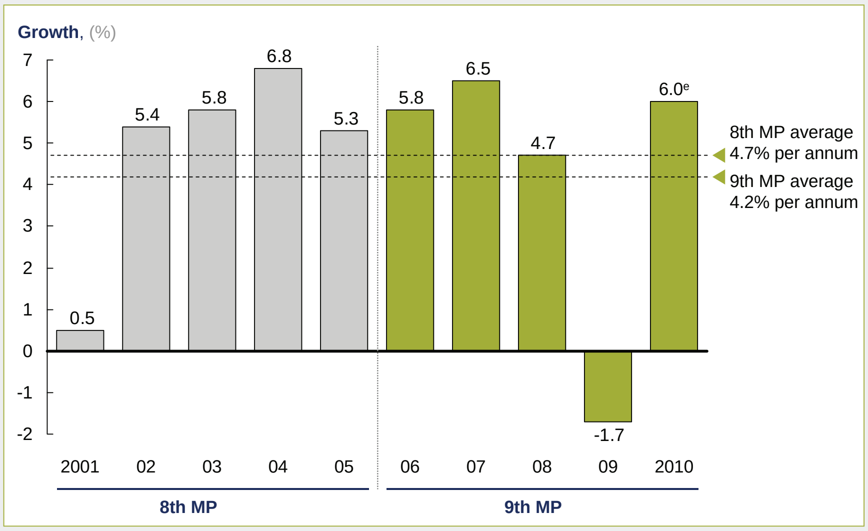
During the Ninth Plan period, the contribution of total factor productivity (TFP) to GDP growth increased to 34.7% compared to 29.0% during the Eighth Malaysia Plan, 2001-2005. The higher contribution of TFP to GDP was attributed to initiatives undertaken by both the public and private sectors to shift the economy towards higher value-added activities through innovation, high technology and human capital development. Higher investment in information and communications technology (ICT) as well as training and retraining of employees also contributed to higher TFP.

Gross National Income (GNI) per capita is estimated to increase from RM19,079 (US$5,038) in 2005 to RM26,420 (US$8,256) in 2010. Despite steep increases in global oil prices as well as higher food prices in 2008, inflation during the Ninth Plan period is expected to remain low, averaging 2.8% per annum, on account of supportive monetary responses and administrative measures to contain inflation.

During the Ninth Plan period, despite a slower growth in employment of 1.6% per annum, 0.9 million jobs were created, mainly in the services sector. With the labour force increasing by 1.7% per annum during the period of 2006 to 2009, the unemployment rate increased slightly from 3.5% in 2005 to 3.7% in 2009. Despite this slight increase in unemployment, Malaysia remains in full employment position. The unemployment rate is expected to improve marginally to 3.6% in 2010.

Chart 2-1

Real GDP growth slowed down in the Ninth Plan compared to the Eighth Plan period



e - Estimate by Economic Planning Unit as at May 2010

SOURCE: Economic Planning Unit and Department of Statistics Malaysia

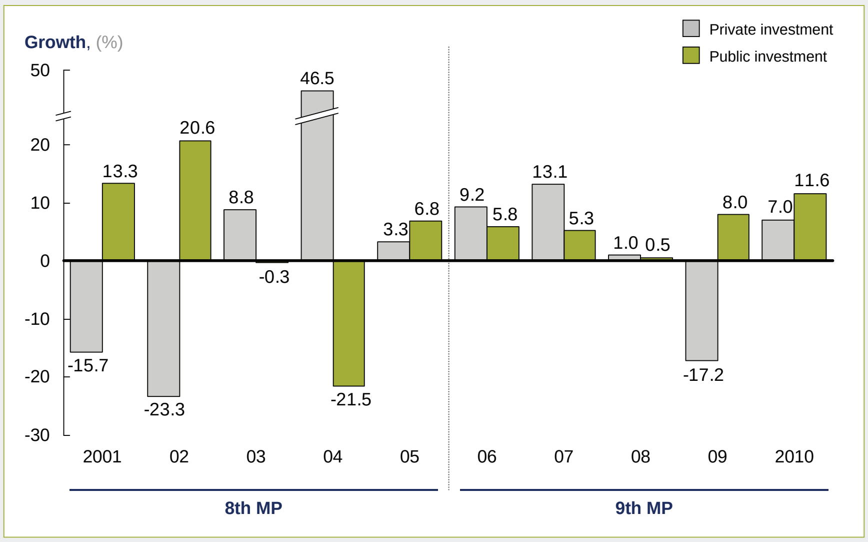
Growth Predominantly Driven by Domestic Demand

Growth in the Ninth Plan period was largely domestic driven. During the first three years, domestic demand grew by 7.7% per annum, but is estimated to moderate significantly to 2.5% per annum in 2009-2010, mainly due to a contraction of 0.5% in 2009. Growth was led by private consumption, which expanded at 6.5% per annum, on account of better commodity prices, a resilient employment market and favourable financing facilities. Salary adjustments in the civil service also contributed to higher consumption.

Private investment growth is estimated to moderate to 2.0% per annum during the Plan period caused by the slowdown in domestic and global demand, as shown in *Chart 2-2*. In terms of total value in nominal terms, private investment was RM356.1 billion during the Plan period, of which approximately 72% was private domestic investment and 28% was foreign direct investment (FDI). While FDI inflows continued to be underpinned by the large presence of multinational corporations (MNCs) in manufacturing and the oil and gas sector, FDI in the services sector has risen, particularly in financial services, shared services and outsourcing, as well as communications.

Chart 2-2

Low private investment compensated by robust public investment



SOURCE: Economic Planning Unit and Department of Statistics Malaysia

An important development has been the rise in net direct investment abroad by resident companies, totalling RM181.7 billion or 3.5% of GDP during the period 2000-2009. This global expansion has enabled Malaysian companies to tap into new and larger markets, especially in the Asian, African and Middle East regions. The scope of investment has also broadened from the oil and gas sector and plantations to the construction and services sectors, particularly financial services, telecommunications, utilities and business services. This augurs well for Malaysian firms to leverage on regional growth opportunities to drive domestic economic growth through greater regional integration.

The moderation in private investment was partially offset by higher public investment at 6.2% per annum, giving a positive growth in fixed capital formation during the Ninth Plan period. This was largely due to the two stimulus packages in 2009 and 2010 amounting to RM67 billion, as well as the implementation of the Ninth Plan projects in infrastructure, education and training and health facilities. Public consumption increased by 7.4% per annum during the first three years of the Plan but moderated sharply to a growth of only 1.0% per annum during the 2009-2010 period. The increase in the first three years of the Plan was attributed to higher expenditure on supplies and services as well as salary adjustments for civil servants.

During the Plan period, the liquidity position in the economy continued to remain high, with the resource balance position recording a surplus of 16.6% of GNI. The share of national savings was 36.3% of GNI, well above the share of total investment at 19.7% of GNI, enabling the nation to finance investment primarily from domestic sources.

Slower External Sector Performance

The recession in major export destinations severely affected the nation's external performance. Exports grew by 3.2% per annum. However, the export of electrical and electronics (E&E) products, which accounted for 59.1% of total manufactured exports, declined by 0.1% per annum. The slower growth in manufacturing exports was mitigated by better export earnings from higher commodity prices, namely for palm oil, crude petroleum and liquefied natural gas. Imports grew at a slower pace of 2.8% per annum compared to 6.8% in the Eighth Plan, primarily due to lower imports of intermediate and capital goods, which accounted for about 85% of total imports.

In terms of composition and direction of trade, the pattern remained largely unchanged during the Ninth Plan period. Manufacturing, especially E&E, continued to dominate exports while imports mainly comprised intermediate goods. In terms of trade direction, emerging Asian economies, especially China, have grown in importance as export destinations, while the US, the larger Organisation for Economic Co-operation and Development (OECD) economies and Singapore continued to be the major trading partners.

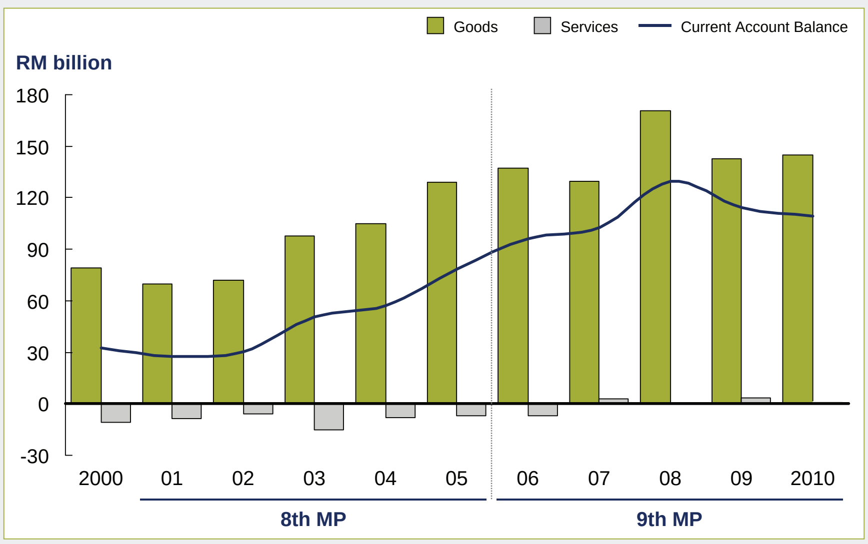
The nation's external position remained strong despite the sharp contraction in external demand, as shown in *Chart 2-3*. Supported by a sizeable trade surplus and higher tourism receipts, the current account continued to record a surplus of 14.6% of GNI in 2010 as compared to 15.8% in 2005. The income account also improved, with a smaller deficit of RM19.9 billion in 2010 on account of higher inflows of profits and dividends accruing to Malaysian companies with investments abroad.

Sectoral Performance Led by the Services Sector

In terms of sectoral performance, all sectors, except mining and quarrying, recorded positive growth, as shown in *Chart 2-4*. The services sector was the main source of growth, expanding

Chart 2-3

Balance of Payments, 2000-2010



SOURCE: Economic Planning Unit and Department of Statistics Malaysia

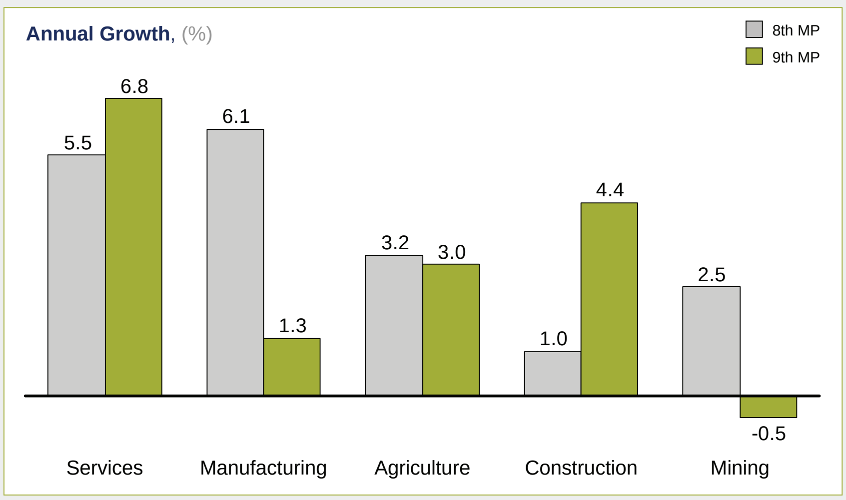
by 6.8% per annum during the Plan period, increasing its share to GDP of 58.0% in 2010. Growth in services was attributed to strong performance in the finance, insurance, real estate and business services, wholesale and retail trade, accommodation and restaurants as well as the transport and communications subsectors.

The manufacturing sector, which is largely dependent on global demand, was adversely affected by the global recession and is estimated to grow by 1.3% per annum compared to 6.1% during the Eighth Plan period. Growth weakened considerably from 6.7% in 2006 to contract by 9.4% in 2009. This was largely due to the sharp deterioration in the demand for export-oriented products, namely the E&E products. Subsequently, the manufacturing sector's share of GDP is expected to decline from 30.9% in 2006 to 26.7% in 2010, the lowest since the early 1990s.

The agriculture sector is estimated to grow at a slower rate of 3.0% per annum as compared to 3.2% per annum during the Eighth Plan period. The slower growth was mainly attributed to a

Chart 2-4

Sectoral performance under the Eighth and Ninth Plan



SOURCE: Economic Planning Unit and Department of Statistics Malaysia

decline in the output of rubber and sawlogs due to a reduction in rubber hectarage and controlled logging for sustainable forest management. However, increases in the output of palm oil, livestock and fisheries supported the growth of the agriculture sector.

The construction sector is expected to grow by 4.4% per annum, benefitting primarily from the construction-related activities under the two fiscal stimulus packages. This growth was largely supported by the expansion in civil engineering, residential and non-residential, as well as the special trade works subsectors.

The mining sector is estimated to decline by 0.5% per annum during the Plan period, due to lower output of crude oil and natural gas. The average production of crude oil was at 667,800 barrels per day and natural gas at 5,797 million standard cubic feet per day (mmscfd), well within the targets set under the National Depletion Policy.

Challenges in Fiscal Consolidation

During the first three years of the Ninth Plan, Federal Government revenue registered a strong growth of 14.6% per annum. This increase was mainly from higher collection of corporate and individual income taxes following the robust performance of the economy. However, the economic slowdown in 2009 has impacted revenue, which is estimated to increase by 0.3% per annum during the 2009-2010 period. As such, for the whole Plan period, Federal Government revenue is estimated to increase by 8.6% per annum, with oil-related revenue contributing about 40% of total revenue in 2010.

Operating expenditure grew by 16.2% per annum during the first three years of the Plan period due to a marked increase in subsidies for oil and food as well as in emoluments following the salary adjustments for civil servants. The implementation of two counter cyclical fiscal stimulus packages in 2009 and 2010 also contributed to the higher expenditure.

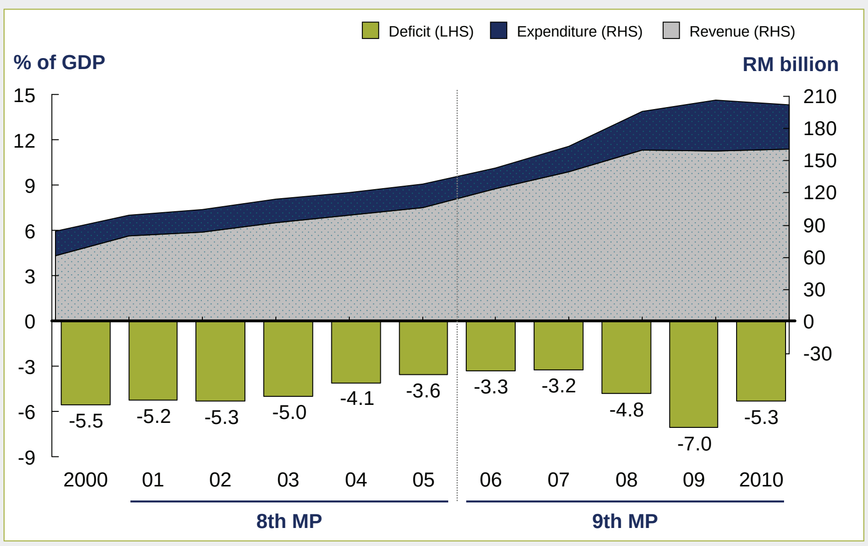
The Government's efforts at fiscal consolidation since 2000 have led to improvements in the Federal Government fiscal position with the

overall budget deficit declining from a peak of 5.5% of GDP in 2000 to 3.2% in 2007, as shown in *Chart 2-5*. However, the fiscal deficit widened to 4.8% in 2008 and 7.0% in 2009.

The Government is committed to reduce its fiscal deficit to a sustainable level and ensure the Government's current account remains in surplus. As such, the overall deficit in 2010 is targeted to narrow to 5.3% of GDP. As a result, total debt of the Federal Government will amount to RM405.1 billion or 52.9% of GDP. Of this, about 96% of debt will be financed through domestic sources.

Chart 2-5

Federal Government accounts, 2000-2010



SOURCE: Economic Planning Unit and Ministry of Finance

Progress of the National Mission

Under the Ninth Plan, the nation embarked on a new phase of development towards realising the Vision 2020. The National Mission provided the policy and implementation framework aimed at obtaining greater performance and impact from the country's development initiatives. Towards this end, the Plan focused on the five major thrusts of the National Mission:

- Thrust 1: Moving the economy up the value chain;
- Thrust 2: Raising the capacity for knowledge and innovation and nurture 'first class mentality';
- Thrust 3: Addressing persistent socio-economic inequalities constructively and productively;
- Thrust 4: Improving the standard and sustainability of quality of life; and
- Thrust 5: Strengthening the institutional and implementation capacity.

The following sections highlight progress on the five thrusts of the National Mission. A more comprehensive list of the achievements is included in *Appendix 2*.

Thrust 1: Moving the Economy Up the Value Chain

In order to move the economy up the value chain, several initiatives were launched to enhance human capital, upgrade ICT infrastructure and develop infrastructure networks. In addition, institutional and regulatory frameworks were strengthened to promote private sector participation.

During the Plan period, there was further deepening and widening of the industrial base with investments in new growth areas such as renewable energy, high-end electronic products, machinery and equipment and medical devices. The nation attracted investments in solar photovoltaic manufacturing worth RM9.8 billion or about 20% of investments in the E&E industries. The overall investment per employee in approved manufacturing projects nearly doubled from RM270,160 in 2005 to RM507,340 in 2009, reflecting the trend towards more capital-intensive, high value-added and high technology projects. In biotechnology, 349 biotech companies, predominantly in agriculture, industry and healthcare, invested a total of RM4.5 billion (RM1.9 billion from the private sector and RM2.6 billion from the Government) for the period 2005-2009. This investment was in a range of activities including genomic science, stem cells, biodiesel and medical devices. There was also progress in research and development (R&D) by biotech companies with 650 patents granted for biotech-related research in Malaysia.

Broadband infrastructure was significantly extended, with household penetration rising from 2% in 2005 to 32% in 2009. The broadband infrastructure was rolled out to facilitate growth in knowledge-intensive sectors. Additionally, high speed broadband was extended to approximately 750,000 premises while WiFi coverage grew to 5,000 hotspots. This was the result of higher demand for broadband, increased local content and applications and expanding e-Government applications.

Significant capacity expansion and improvements were made in the transportation network. During the Plan period, 45,200 kilometres of roads were constructed or upgraded including 4,045 kilometres of roads in Sabah and 13,060 kilometres in Sarawak. New highways, including the Senai-Desaru Expressway and the Kemuning-Shah Alam Highway, were constructed to reduce travel time. In order to improve the efficiency and quality of rail services, several rail projects were constructed. The Rawang-Ipoh Electrified Double Track Project, a major rail project completed in 2007, reduced travel time from Kuala Lumpur to Ipoh from five to two hours. In addition, upgrading works were undertaken at various ports resulting in the increase in total containers handled from 12 million Twenty-foot Equivalent Units (TEUs) in 2006 to 20 million TEUs in 2009. Similarly, the expansion of airports enhanced the efficiency of airport management and increased total passengers handled from 41 million in 2006 to 51 million in 2009.

The provision of reliable and quality supply of energy at competitive rates has helped contain the cost of doing business. Enhancement of the gas supply system as well as the electricity transmission and distribution networks facilitated efforts to improve supply quality. The reallocation of 100 mmscfd of gas supply from the power sector to the industrial sector was undertaken to meet the needs of the industrial sector.

The Foreign Investment Committee (FIC) guidelines were removed, eliminating equity conditions imposed on non-strategic sectors. This was designed to encourage greater foreign investment as well as domestic investment. The Government also liberalised 27 services subsectors with no equity conditions imposed. Liberalisation measures for the conventional and Islamic finance sectors were also introduced. Various measures undertaken during the Plan period to reduce the cost of doing business have helped improve the business climate. These included streamlining of business licences and reduction in time taken for business registration and registration of ownership of property.

Thrust 2: Raising the Capacity for Knowledge and Innovation and Nurture 'First Class Mentality'

During the Plan period, greater access was provided to affordable and quality education and training at all levels, which resulted in higher enrolment and participation rates. The performance gap between rural and urban schools was narrowed with the provision of basic infrastructure as well as educational and training facilities. Labour productivity improved in line with efforts to expand the provision of lifelong learning programmes in which employees, particularly in the small and medium enterprises (SMEs), were trained and retrained to improve their skills.

Enrolment at pre-school, primary and secondary levels increased with improved accessibility to quality education. In pre-school education for children aged 4+ to 5+ years old, the participation rate rose from 63.0% in 2005 to 67.6% in 2009. This increase was made possible with the expansion in pre-school classes. The number of primary schools increased from 7,601 in 2005 to 7,664 in 2009, while the number of secondary schools increased from 2,028 to 2,219. Measures were also taken to enhance the quality of teachers. The proportion of graduate teachers in primary schools increased from 6% in 2005 to 28% in 2009. Similarly, the share of graduate teachers in secondary schools rose from 82% to 89%.

Enrolment in higher education rose from 649,000 in 2005 to 949,000 in 2009. As a result, the participation rate in the 17-23 years age group rose from 27.0% in 2005 to 31.4% in 2009. During the Plan period, a total of 4,156 lecturers in public universities pursued PhD qualification.

This raised the proportion of academic staff with PhD qualification in public universities from 26.6% in 2005 to 35.9% in 2009. The Accelerated Programme for Excellence (APEX) was introduced with the Science University of Malaysia (*Universiti Sains Malaysia* or USM) as the first APEX university. This programme is intended to raise performance and competitiveness of the public universities. In order to intensify research and innovation activities, four universities were accorded Research University status. A Rating System for Malaysian Higher Education Institutions (*Sistem Penarafan Institusi Pengajian Tinggi Malaysia* or SETARA) was introduced in 2007 to enhance quality and promote best practices among public universities.

Intake in public technical and vocational training institutes rose by 1.5% per annum. With the establishment of 10 skills training institutes and upgrading of 16 existing institutes, intake rose to 88,050 trainees. Intake at the Malaysian Skills Certificate (*Sijil Kemahiran Malaysia* or SKM) at Level 4 or diploma in the advanced public training centres increased from 7,110 in 2005 to 29,840 in 2009, reflecting greater emphasis on skills enhancement to meet industry requirements. The National Dual Training System (NDTS) and apprenticeship scheme were intensified with greater collaboration with industry. A total of 20,460 trainees was trained under NDTS, with 90% of the trainees gaining employment immediately after graduation. The National Skills Development Act was enacted in 2006, which allowed for the enforcement of accreditation procedures. As a result, the accreditation of 42 institutions was revoked due to their non-compliance to the accreditation procedures.

Under the two economic stimulus packages, 76,940 unemployed graduates, school leavers and displaced workers were trained. Lifelong learning programmes were enhanced through the expansion of distance learning, e-learning, retraining and skills-upgrading offered by various institutions. At the local level, community colleges assumed a greater role in implementing retraining and skills-upgrading programmes, benefiting a total of 507,940 participants.

Thrust 3: Addressing Persistent Socio-Economic Inequalities Constructively and Productively

The Ninth Plan made progress in eradicating poverty and reducing income and wealth disparity. There was also improvement in the strengthening of the Bumiputera Commercial and Industrial Community (BCIC).

Hardcore poverty was reduced from 1.2% in 2004 to 0.7% in 2009. The incidence of overall poverty also fell from 5.7% to 3.8% during the same period. This was the result of the implementation of targeted poverty eradication programmes in both rural and urban areas.

Bumiputera ownership of share capital of limited companies rose from 19.4% in 2006 to 21.9% in 2008. Bumiputera ownership in commercial buildings and premises increased from 11.7% in 2005 to 14.0% in 2008. The proportion of Bumiputera employment in senior managerial categories improved from 37.1% in 2005 to 43.0% in 2008. *Ekuiti Nasional Berhad* (EKUINAS) was established in 2009 to enhance Bumiputera participation in the economy.

Five regional growth corridors were established, each with a Corridor Development Authority (CDA) to promote its development. The corridors have secured investments amounting to RM245 billion. Of the 196 projects approved in the corridors, 86%, or 173 projects, have commenced operations.

Thrust 4: Improving the Standard and Sustainability of Quality of Life

The quality of life for Malaysians improved through better access to healthcare, public transport, electricity and water. Measures were also taken to create a caring society and promote community well-being. Economic development was based on sustainability principles to ensure that the environment and natural resources are preserved so that growth will not come at a cost to future generations.

Access to healthcare expanded with the establishment of 39 new health clinics in the urban areas and 81 new clinics in the rural areas. In order to address the growing concern for health needs of the urban poor, 51 1Malaysia clinics were established in urban areas. As quality healthcare also hinges on human capital, measures to reduce distribution gaps, increase training capacity and improve compensation packages resulted in a significant increase in the number of doctors from 21,700 to 28,000 and nurses from 70,200 to 79,800. This resulted in an improvement in doctor-patient ratio and helped improve healthcare services delivery.

Daily urban rail ridership rose from 447,200 in 2006 to 451,000 in 2009 with improved urban public transport coverage and facilities.

Measures undertaken to improve the efficiency and reliability of urban services included the extension of Komuter rail service to Tanjung Malim, procurement of 35 sets of 4-car trains for Light Rail Transit (LRT) service, construction of the Integrated Transport Terminal (ITT) in Bandar Tasik Selatan and completion of electrified double track rail from Sentul to Batu Caves. Several urban roads were constructed and upgraded to relieve congestion and improve traffic flows in major cities. The Commission for Land Public Transport (*Suruhanjaya Pengangkutan Awam Darat* or SPAD) was established in June 2010 to improve long-term integrated planning for a safe, reliable, and affordable land-based public transport system. SPAD will be involved in regulatory oversight as well as enforcement of service standards across all modes of land-based public transport.

The National Climate Change Policy and the National Green Technology Policy were adopted in 2009 to address the pressing issue of climate change. Through these policies, Malaysia aims to implement strategies to move towards a low-carbon economy and achieve sustainable development. In addition, a Green Technology Financing Scheme amounting to RM1.5 billion was established to promote green technology. Two major initiatives were launched to ensure sustainable use of forests and their natural resources: the Central Forest Spine project covering 4.3 million hectares in Peninsular Malaysia and the Heart of Borneo project covering 6.0 million hectares in Sabah and Sarawak. The flood mitigation projects in urban areas, such as the SMART tunnel and the Sungai Damansara Package 1, have addressed flooding in these areas.

The national policy on women has helped raise representation of women in management positions in the public sector from 18.8% in 2004 to 30.5% in 2010, while it rose from 13.5% to 26.2% in the private sector. *Nur Bestari*, a leadership programme initiated in 2007, benefitted more than 147,000 women. In addition, *Jejari Bestari*, a skills training programme in cottage industries such as beading and tailoring was launched in 2007 and has trained more than 23,000 women. Seminars on violence against women involving more than 61,000 participants were conducted in 222 parliamentary constituencies.

A total of 436 registered child care centres was established at workplaces. In addition, 534 child care providers were trained to enhance their capability in operating child care centres. The National Policy and Action Plan for the Elderly was revised to enable the elderly to realise their potential and utilise all possible opportunities. Various facilities and privileges for the elderly such as special counters and seating areas in government agencies were introduced. Existing institutions for the elderly were upgraded to provide better care and services. A total of 22 daycare centres was established to take care of 16,300 older persons.

About 17,400 People with Disabilities (PWDs) benefitted through 409 community-based rehabilitation centres. These centres provided services such as disability screening and detection, vocational training, and dissemination of information on disabilities. A policy and an action plan on PWDs were formulated in 2007 with the aim of integrating PWDs into the mainstream of society. Employment opportunities for PWDs were enhanced through various policies in the public sector. A total of 7,975 PWDs was placed in the private sector through the electronic labour exchange system for PWDs.

A total of 963 programmes was conducted to promote culture and arts, attracting an audience of 1.5 million. Kuala Lumpur was promoted as the hub of cultural and artistic activities, which was supported by various local and international performances as well as art exhibitions and film and music festivals. The Arts for All Programme, which includes cultural performances, exhibitions and competitions, contributed to higher interest and appreciation of culture and arts.

Melaka and Georgetown were recognised as World Heritage Towns by United Nations Educational, Scientific and Cultural Organization (UNESCO). UNESCO also recognised the Terengganu Inscribed Stone as Memory of the World. A total of 148 heritage buildings was preserved during the Plan period. These efforts will continue to serve as a catalyst to draw tourists to the country.

Programmes were implemented to equip the youth with the necessary skills and values such as the Skills, Leadership and Entrepreneur Programme, which provided training for 124,880 participants. Specific programmes were also initiated to encourage national unity and social integration among youth. A total of 2,400 programmes was implemented involving more than half a million multi-ethnic participants. The Youth Development Programme to encourage participation in youth associations recorded 1.9 million registered members.

The Sports for All Master Plan was formulated to encourage participation in sports, and in recreational and fitness activities, thereby promoting a healthy lifestyle. A number of community sports clubs was established at the state and parliamentary levels. A total of 1,282 multipurpose sports courts and fields was built to encourage people to adopt a healthy lifestyle. In order to raise the standard of sports, coaching programmes for 21,200 trainers and facilitators were undertaken. In addition, resources were channelled into high performance sports to nurture world class athletes.

The recruitment of 19,270 police personnel from 2006 to 2009 improved public security and ensured a safe environment. A total of 162 new police stations was established in private premises and mobile police stations at crime-prone locations, mainly in Pulau Pinang, Johor, Selangor and Kuala Lumpur. The *rakyat* was also encouraged to participate in combating crimes through the Rakan Cop Programme, People's Volunteer Corps (*Ikatan Relawan Rakyat Malaysia* or RELA) and Neighbourhood Watch (*Rukun Tetangga*). As one of the six National Key Results Areas (NKRAs), greater focus was given to public safety and crime reduction.

Thrust 5: Strengthening Institutional and Implementation Capacity

Malaysia's position in the IMD World Competitiveness ranking rose sharply from 24th in 2006 to 10th position in 2010. This was attributed to various initiatives under a Special Task Force to Facilitate Business (*Pasukan Petugas Khas Pemudahcara Perniagaan* or PEMUDAH) as well as innovative measures to improve government delivery and foster collaboration between the public and private sectors. Several efforts were made to enhance services at the district and local levels, integrate services across agencies and increase public confidence in electronic services mainly through the use of ICT. The cost of doing business was lowered through the streamlining of processes and procedures and the establishment of commercial courts. One-stop centres were established to expedite approvals of development proposals. Immigration procedures were streamlined to facilitate employment of high-skilled expatriates and reduce processing time for employment visas. Time taken for approval of licences was also reduced and there has been greater use of ICT for government services through the myGovernment portal.

The Government established the NKRAs and Ministerial Key Performance Indicators (KPIs) to move towards an outcome-based approach for planning, monitoring and evaluating public sector programmes. The Ministerial KPIs in turn were translated into KPIs for civil servants. In order to effectively meet these KPIs, a different set of capabilities are required. To this end, new hybrid structures were created within the Government to leverage the best of both public and private sectors, such as the Performance Management and Delivery Unit (PEMANDU).

PROSPECTS DURING THE TENTH MALAYSIA PLAN, 2011-2015

The Malaysian economy has recovered strongly from the recent global slowdown. However, Malaysia's growth momentum has slowed over the past decade relative to its previous performance. Achieving and sustaining the 6% annual growth rate during the Tenth Plan period needed to achieve high-income status by 2020 requires significant change in economic strategies. There is a need for a transformation towards productivity-led growth, where the private sector will be the primary driver of growth and innovation.

Achieving the high growth rate will be a challenging task in the context of an uncertain global environment. Malaysia will also have to face intense competition for investment, markets and talent. In view of this, Malaysia will have to position itself strategically to compete in the new dynamic global environment. Moreover, the nation's budgetary position limits the Government's flexibility to drive growth and thus private sector activity will need to expand significantly.

Facing a Challenging Global Economy

While the global economy is on the path of recovery, the aftermath of the crisis is likely to adversely affect the growth trajectory in advanced economies, with the average growth in the short- and medium-term expected to be slower than in the decade before the crisis. Emerging and developing economies, particularly in Asia, however, are expected to lead the global recovery and become the anchors of global growth, led by the strong performances of China and India. In line with this, world growth is projected to expand by 4.5% per annum during the 2011-2015 period, on account of stronger growth of 6.6% in the emerging and developing economies. Growth in advanced economies is expected to be slower at 2.4% per annum as shown in *Table 2-1.*

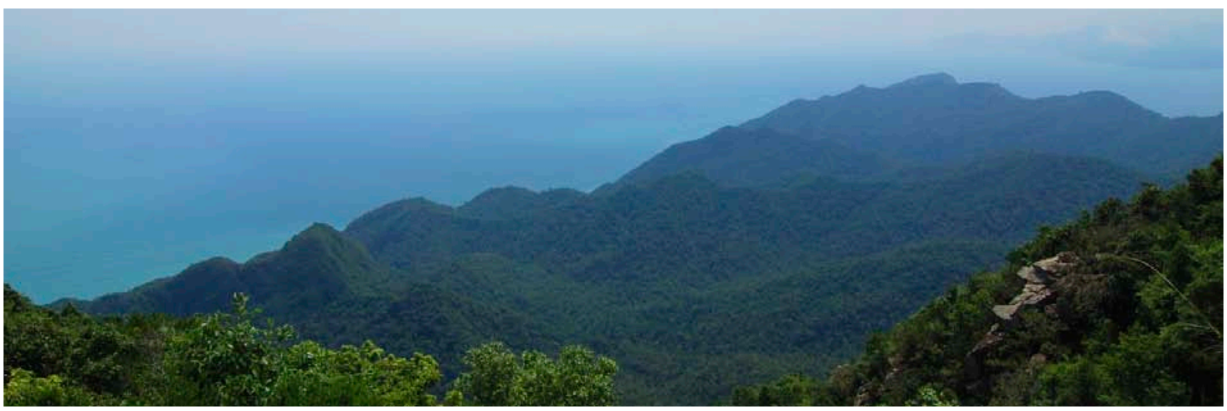


Table 2-1 World Economic Outlook, 2006-2015

	Average Annual Growth Rate (%)	
	2006-2010	*2011-2015*
World Output	***3.4***	***4.5***
Advanced Economies	*1.1*	*2.4*
Emerging Economies and Developing Countries	*6.2*	*6.6*
World Trade Volume	***2.8***	***6.7***
Imports		
Advanced Economies	*1.0*	*5.2*
Emerging Economies and Developing Countries	*6.4*	*9.0*
Exports		
Advanced Economies	*2.1*	*5.3*
Emerging Economies and Developing Countries	*4.6*	*8.8*
World Price		
Manufacturers	*3.2*	*1.4*
Non-Fuel Primary Commodities	*7.0*	*-1.2*
Oil per barrel (US$) *	81.6	90.0
growth (%)	*5.0*	*2.6*
Consumer Prices		
Advanced Economies	*1.9*	*1.8*
Emerging Economies and Developing Countries	*6.5*	*4.1*

* West Texas Intermediate Crude Oil Prices
SOURCE: World Economic Outlook, April 2010, International Monetary Fund, Bloomberg and various sources

Transforming the Malaysian Economy

The slowdown in growth momentum during the Ninth Plan period highlights that the historical sources of growth can no longer be the primary drivers of strong economic outcomes. This slowing growth trajectory, coupled with the challenging and uncertain external environment, means that the growth of the economy will be below its long-term growth trend if serious reforms are not undertaken to transform the economy. Thus, Malaysia needs to rely on improving domestic competitiveness and productivity.

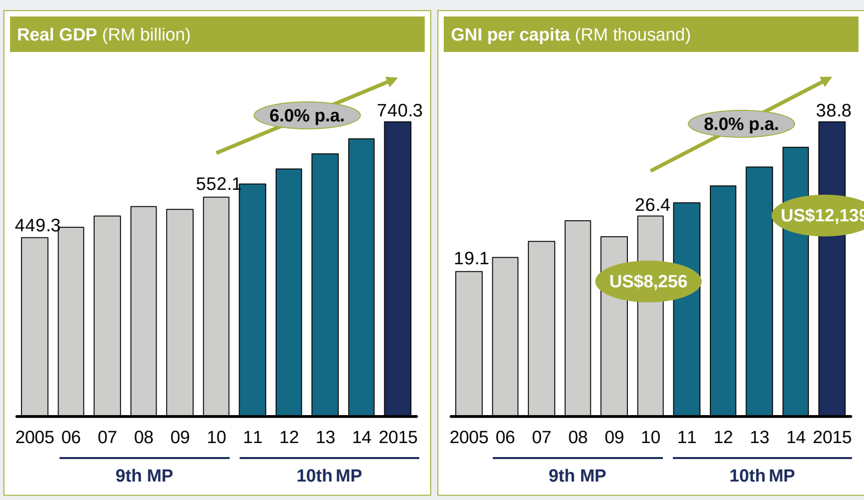
The immediate priority is to ensure that the recovery is sustained. In the medium- and long-term, the focus has to be on shifting the economy to a high value-added and high-income economy. Towards this end, the structure of the economy must be transformed to better position Malaysia to meet new challenges as well as to benefit from global opportunities.

The openness of the Malaysian economy and heavy reliance on external trade, especially with the advanced economies, make the nation highly vulnerable to external shocks. In this regard, an important strategy will be to promote domestic demand to become a major driver of growth mainly by energising the private sector. Hence, the nation must create an enabling environment which encourages productivity, competitiveness and innovation.

Premised on these policy thrusts, the 6.0% growth target during the Tenth Plan will be supported by domestic demand, primarily from greater dynamism of private investment. With this, GNI per capita will increase to RM38,845 (US$12,139) in 2015, as shown in *Chart 2-6,* in line with the target of achieving a high-income economy by the year 2020.

Chart 2-6

Real GDP and GNI per capita towards a high-income economy



SOURCE: Economic Planning Unit and Department of Statistics Malaysia

Maintaining Full Employment

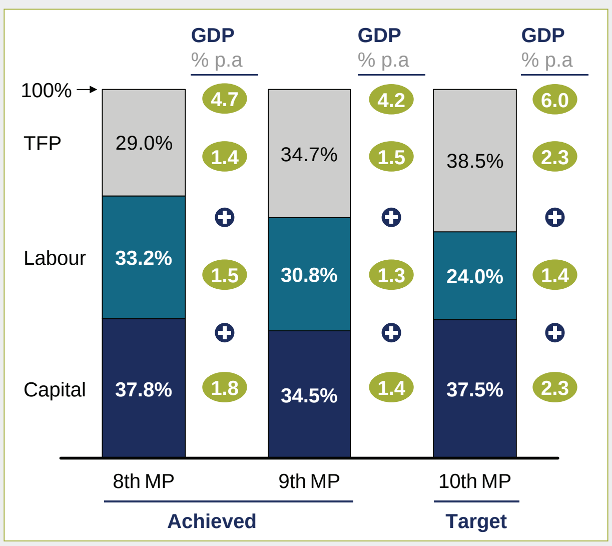
During the Plan period, employment is expected to grow at 2.4% per annum to reach 13.2 million—an increase of 1.4 million jobs, mostly in the services sector. This is significantly higher than the 0.9 million jobs created during the Ninth Plan period. As a result, the economy is expected to remain in full employment, with an estimated unemployment rate of 3.1% in 2015.

Pushing for Productivity-led Growth

Growth during the Tenth Plan period will be driven by significant increases in productivity, rather than by higher capital and labour inputs, as well as by efficiency gains from removing distortions within the economy. Productivity growth will be achieved through higher levels of input from human capital, adoption of new technologies and development of entrepreneurship to drive innovation and creativity. With this, the contribution of TFP to GDP is projected to increase to 38.5%, while that of capital and labour is estimated to decline to 37.5% and 24.0% respectively, as shown in *Chart 2-7*.

Chart 2-7

Total Factor Productivity is expected to increase



SOURCE: Economic Planning Unit

Malaysia will benefit from higher investment in niche growth areas, particularly through the intensive use of knowledge, innovation and technology. Human capital development will focus on creating talent through enhancing skills and competency of the nation's human resources.

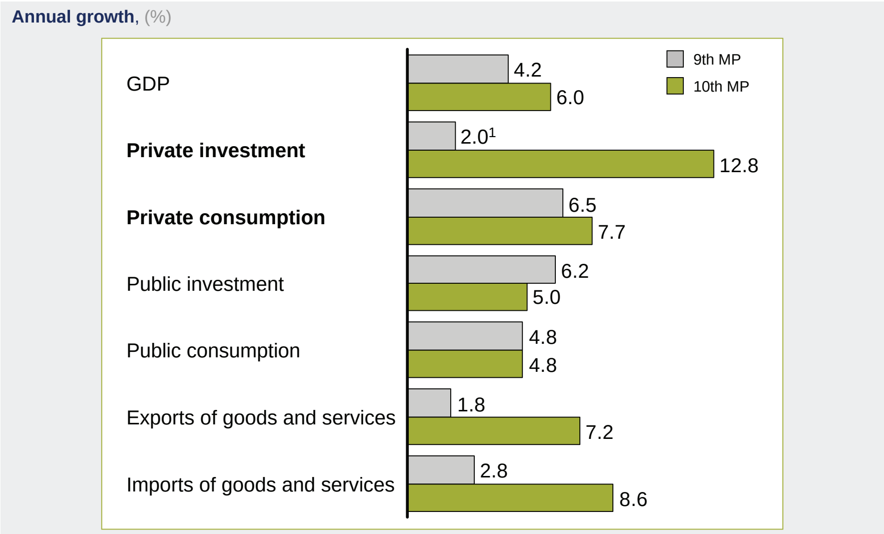
Enabling Greater Dynamism of the Private Sector

The Government will continue to leverage on more vigorous private sector expansion, particularly in providing the lead in the development of new growth areas. During the Plan period, private investment is projected to grow by 12.8% per annum as shown in *Chart 2-8*, with an investment of RM115 billion, in current prices, per year. A key component of this growth will be from FDI. Private investment will contribute 13.9% of GDP in 2015.

While both fiscal and monetary policies will continue to support private initiatives, improvements in the business environment for private investment will be given priority, including measures to further liberalise the economy. Public sector efficiency will be further strengthened by the ongoing Government

Chart 2-8

Growth in private investment and consumption will be much faster than during the Ninth Plan period



1 Private investment contracted by 17.2% in 2009

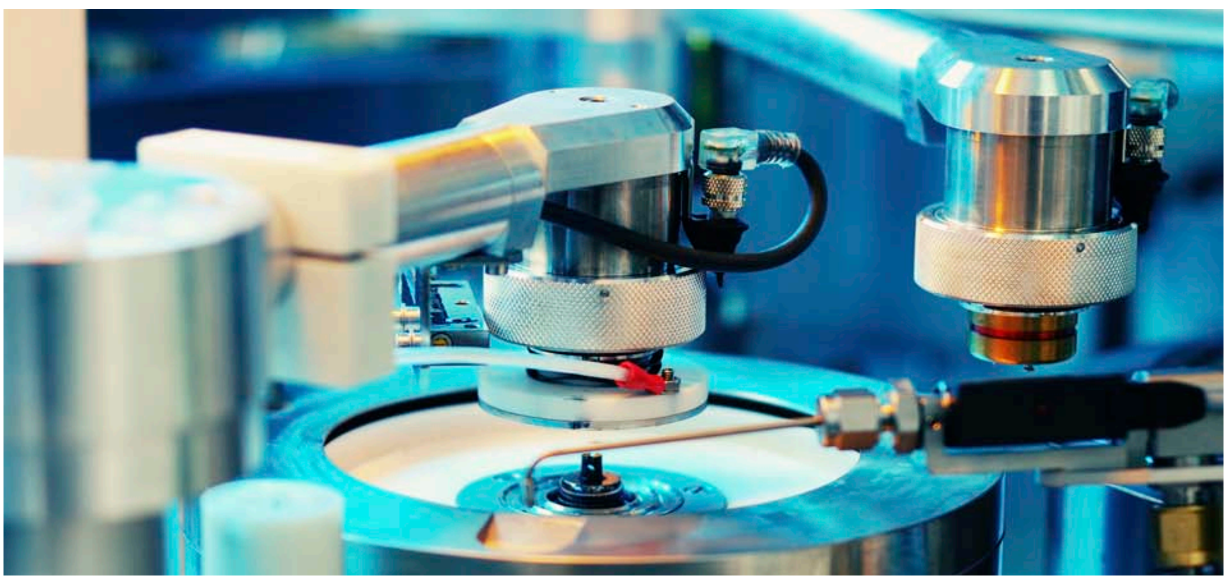
SOURCE: Economic Planning Unit and Department of Statistics Malaysia

Transformation Programme (GTP), which aims at streamlining bureaucratic processes and reducing the costs of doing business. Statutory and regulatory reviews will be undertaken to promote entrepreneurship and improve risk-taking profiles of the private sector.

The implementation of public-private partnership (PPP) initiatives worth RM62.7 billion will be a key component of the Government's efforts in promoting economic growth through private sector participation. Among the large projects to be implemented under the PPP include seven toll highways, five *Universiti Teknologi* MARA (UiTM) branch campuses, redevelopment of Angkasapuri Complex Kuala Lumpur as Media City, Integrated Transport Terminal in Gombak and privatisation of Penang Port Sdn. Bhd.

Sustaining Growth in Private Consumption

Since 2003, growth in domestic demand has been driven mainly by private consumption, surpassing the growth pace of the overall economy. During the Plan period, private consumption is projected to register sustained growth of 7.7% per annum, largely on account of higher incomes as well as better employment prospects. With this, the contribution of private consumption to GDP will



increase from 53.6% in 2010 to 58.0% in 2015, broadly comparable to developed economies, as shown in *Chart 2-9*.

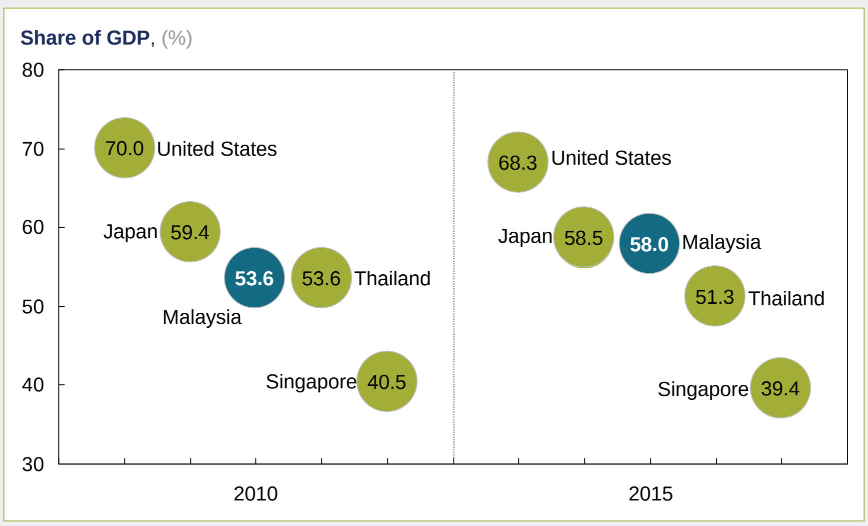
Diversifying Export Markets

The openness of the Malaysian economy and deep integration with the global supply chain have been important sources of the nation's economic strength. Going forward, international trade will continue to provide the impetus towards attaining high growth. Exports is projected to grow at 10.6% per annum mainly comprising manufactured products growing at 10.8% per annum, and accounting for 78.8% of total exports in 2015. Exports of the agricultural and mining sectors are expected to grow by 11.0% and 9.4% per annum respectively, driven largely by higher export prices.

Imports is projected to grow at 12.5% per annum, with intermediate goods and capital goods constituting 83.7% of imports. Import of consumption goods is targeted to grow at 11.5% per annum. Given the growth pace in exports and imports, the trade balance is expected to remain strong with a trade surplus of RM142.4 billion in 2015.

Chart 2-9

Comparison of private consumption between selected countries



SOURCE: Economic Planning Unit and Economist Intelligence Unit

With trade in goods and services accounting for more than 180% of GDP during the Ninth Plan period, Malaysia needs to diversify its external trade structure in order to enhance the nation's resilience to external shocks. In this regard, efforts will be taken to reduce dependence on the traditional markets and to make stronger inroads into emerging markets in Asia and the Gulf states. China and India have now emerged as the new global economic powerhouses with their combined share of world GDP amounting to 9.3% in 2008, doubling since 1980. While Malaysia has made notable progress in export market diversification, with the share of exports to emerging and developing economies expanding from 18.3% of total exports in 2000 to 37.7% in 2009, greater efforts will be undertaken to further reinforce this trend.

Sustaining a Surplus in the Balance of Payments

The nation's external account will continue to remain strong, with the overall balance of payments expected to remain favourable with a current account surplus of 10.5% of GNI in 2015. The goods account is expected to record a surplus of RM169.3 billion, while the services account surplus will rise to RM6.8 billion in 2015 compared to RM1.3 billion in 2010, as shown in *Table 2-2*. This surplus in the services account will be largely from higher net travel receipts and an increase in the export of services such as education, healthcare and outsourcing.

Table 2-2 Balance of Payments, 2010 and 2015

Items	*RM billion*	
	Estimate	*Target*
	2010	*2015*
Goods	145.0	169.3
Exports	628.0	1,038.5
Imports	483.0	869.2
Services	1.3	6.8
Transportation	-19.4	-21.0
Travel	31.8	40.0
Others	-11.1	-12.2
Income	-19.9	-33.1
Current Account	109.2	121.7
% to GNI	*14.6*	*10.5*

SOURCE: Economic Planning Unit

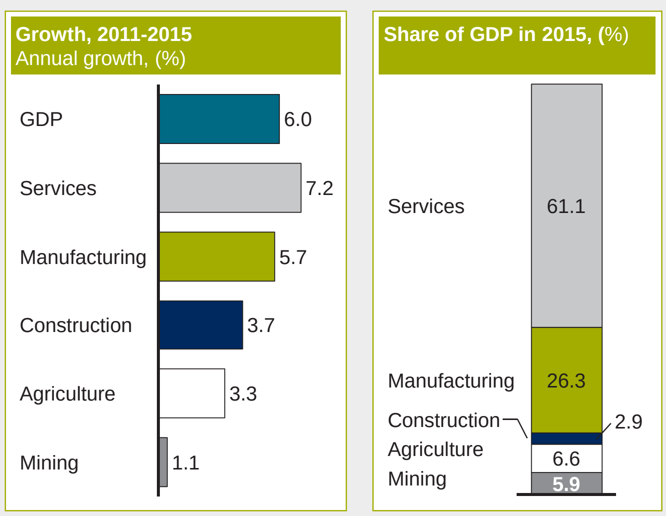
Achieving Sectoral Targets

Economic growth will leverage on the nation's strengths and competitiveness to develop new sources of growth such as healthcare, education and ICT. There are also opportunities to create higher value add products in established manufacturing and services subsectors as well as in downstream resource-based industries. These new sources of growth will rely on innovation and the use of technology as well as skilled human capital.

The services sector is expected to remain the primary source of growth, driven mainly by the expansion in finance and business services, wholesale and retail trade, accommodation and restaurants as well as the transport and communications subsectors, as shown in *Chart 2-10*. The manufacturing sector is also expected to experience robust growth, contributed mainly by higher value add in the E&E subsector. The construction, agriculture and mining sectors are expected to achieve positive growth during the Plan period.

Chart 2-10

Sectoral growth to be led by services sector



SOURCE: Economic Planning Unit

Enhancing Efficiency of Fiscal Policy

The Government will continue with fiscal reforms to bring greater value for money to government spending and widen its revenue base, particularly through a more broad-based tax system. With this, the Government's overall deficit is targeted to be reduced from 5.3% of GDP in 2010 to 2.8% in 2015 as shown in *Chart 2-11*. Consequently, Federal Government debt is expected to decline to 49.9% of GDP in 2015 from 52.9% in 2010, as shown in *Chart 2-12.*

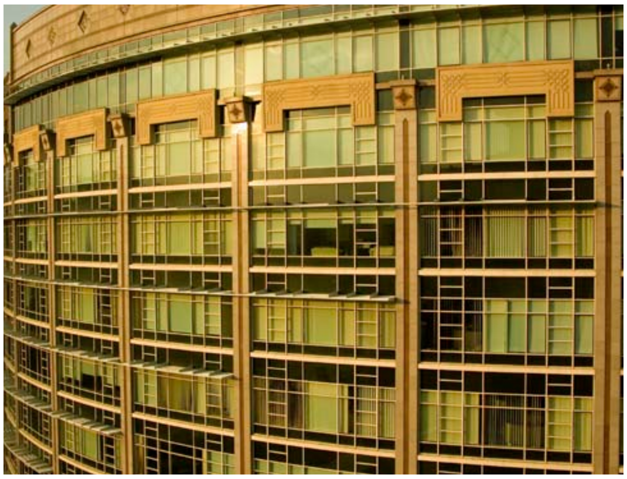


Chart 2-11

Reducing Federal Government fiscal deficit

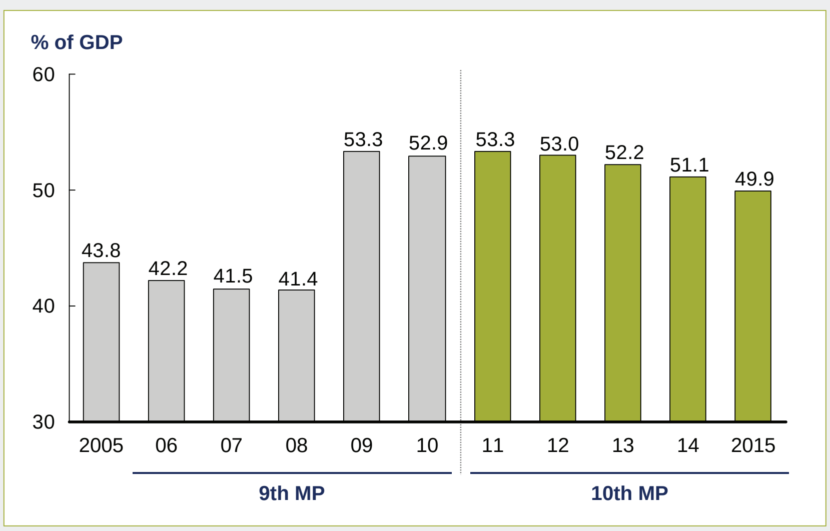
SOURCE: Economic Planning Unit and Ministry of Finance

Total Federal Government development allocation for the Tenth Plan is RM230 billion. Of this, RM126.5 billion or 55% is allocated for the economic sector, RM69.0 billion or 30% for the social sector, RM23.0 billion or 10% for the security sector and RM11.5 billion or 5% for general administration. This allocation includes a Facilitation Fund of RM20 billion to promote private sector investment in strategic priority areas including infrastructure, education and health.

The Government will introduce a two-year rolling plan to provide greater flexibility in making adjustments to Government spending, especially to respond to changes in the global economic environment. Under the first rolling plan for the period 2011-2012, a sum of RM91 billion will be allocated for development expenditure.

Chart 2-12

Towards a sustainable Federal Government debt position



SOURCE: Economic Planning Unit and Ministry of Finance

Development expenditure will be an important instrument to support the transition to a high-income economy that will rely on greater use of intellectual capital, skills, innovation and technology. As such, development expenditure will focus on non-physical programmes for which allocation will rise from 22% in the Ninth Plan to 40% in the Tenth Plan.

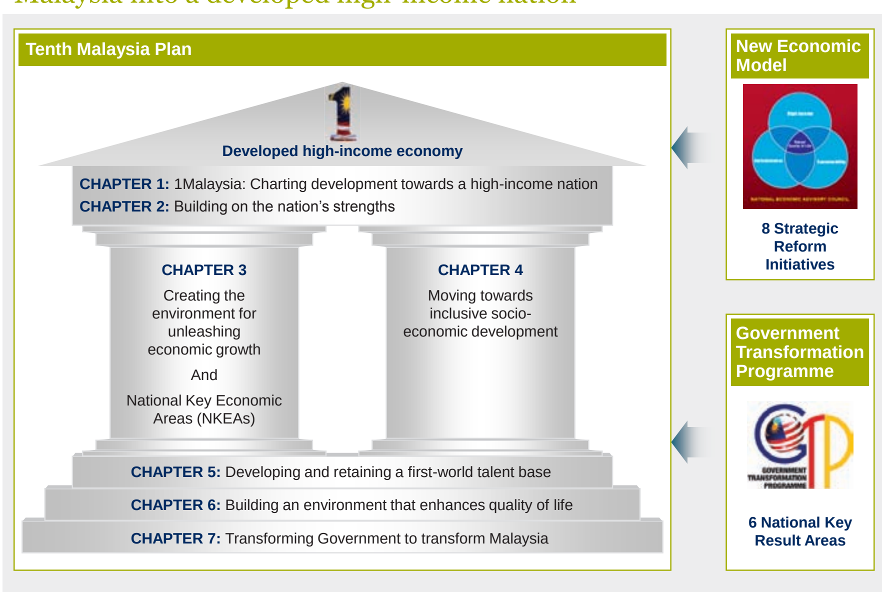
MOVING FORWARD

While Malaysia faces enormous challenges in becoming a high-income nation by 2020, the nation can build on its inherent strength in its resource base, excellent infrastructure and diligent workforce to drive the nation forward. In this respect, the Tenth Plan provides the policy framework and strategies to achieve high-income status by 2020. As shown in *Chart 2-13*, the Plan also draws on the foundations laid down by the 1Malaysia concept, and builds upon the GTP and the New Economic Model (NEM) to offer fresh policies and strategies.

The 1Malaysia concept seeks to reinforce national unity, which is crucial to maintain social and political stability — a prerequisite for Malaysia to remain an attractive place for business and investment. Respect for the values of the different communities will help the *rakyat* appreciate the differences as assets. The concept aspires for Malaysians to move beyond tolerance to accept and eventually celebrate diversity in ethnicity, religion, culture and belief. The principle of justice will be the core of this concept in which all Malaysians will be cared for with special attention accorded to the disadvantaged groups.

Chart 2-13

The Tenth Malaysia Plan will encapsulate all efforts to transform Malaysia into a developed high-income nation



The GTP was introduced in 2010 to transform the Government to be more effective in its delivery of services and accountable for outcomes. The NEM lays out Strategic Reform Initiatives (SRIs) to drive the nation towards a sustainable high-income and inclusive economy. Many of the NEM's new strategies on economic growth and the corresponding SRIs are included in the Tenth Plan. The Plan also incorporates the six NKRAs and provides an update on the improvements in the government delivery system since the launch of the GTP.

Building on the strengths and successes of the past, Malaysia is now in a strong position to propel the nation towards high-income status. However, the challenges to achieve high-income status call for an effective multi-faceted approach to overcome the nation's structural issues. For the next five years, the Tenth Plan will be the means to jumpstart the nation's move towards a high-income economy. The Tenth Plan will focus on the following key areas:

- Creating the environment for unleashing economic growth. This will be the anchor of the Plan, as it details strategies to create an environment that fosters economic growth with the private sector as the main driver;

- Moving towards inclusive socio-economic development. There will be measures to ensure income and wealth are distributed in an equitable manner thereby reducing inequalities. The objective will be to build a more inclusive society;

- Developing and retaining a first-world talent base. This will be key to promote productivity and innovation-led growth. Central to this will be strategies to develop, attract and retain quality talent base;

- Building an environment that enhances quality of life. Economic growth will be supplemented by strategies to raise the quality of life of the *rakyat* that commensurate with the country's higher income status; and

- Transforming Government to transform Malaysia. The role of government will evolve to become an effective facilitator in the transformation of the economy and provide quality services to the *rakyat*.