MALAYSIA'S MOVE TOWARDS A HIGH INCOME ECONOMY

FIVE DECADES OF NATION BUILDING - A VIEW FROM WITHIN

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1st MAY 2014
KUWAIT CITY, KUWAIT
Total population 2013: 29,974,054
54% are middle class

Per capita income (as of 2013) US$ 10,687

Structure of the economy
- Services 46%
- Manufacturing 25%
- Non-manufacturing industry 19%
- Agriculture 10%

Oil & Gas sector contributions:
- 20% of GDP
- 35% Government revenue
Global Competitiveness Index (GCI) 2013-2014
Malaysia ranked: 24th

The Ease of Doing Business 2013
Malaysia ranked: 6th

Quality of Infrastructure 2012-2013
Malaysia ranked: 29th

Global Innovation Index (GII) 2013
Malaysia ranked: 32nd
FROM THE EARLY DAYS

1957 to late 1970s

Agriculture Based Economy

Basic Input Factors
- Land
- Labour

1980s to mid 1990s

Resource-Led Economy

Basic Input Factors
- Infrastructure
- Collateralized risk-free capital
- Labour

Late 1990s to 2020

Innovation-Led Economy

Critical Success Factors
- Technology
- Market
- Funding (risk capital)

Rewards are rapid and sustainable:
- Wealth creation
- Employment creation
- Societal well being
Malaysia has achieved sustained economic growth with low inflation and low rate of unemployment.
Significant structural shift in the economy in the 3 decades

From manufacturing-dependent to services-driven economy

Source: Department Of Statistics, Malaysia
From an asset perspective, 20% of Malaysia’s wealth is in natural capital.
THE CHALLENGES

Availability of resources and infrastructure

Technology know-how

Commodity prices

Rising environmental concerns
Malaysian competitiveness has been preserved by the following factors:

**Intergenerational equity**
- Malaysia was one of the very few resource-rich nations that invested more than the resource wealth extracted.

**Successful horizontal and vertical diversification of economy**
- Horizontal shift from primary sectors to manufacturing
- Vertical shift from upstream (raw) to downstream rubber and oil&gas
- Ensuring strong backward and forward linkage for commodities

**Inflation and wage pressures contained**
- Lower inflation compared to its peers (CAGR: +2.3%)
- Productivity growth (+3.2%^) exceed wage growth (+2.7%^)

**Note:**
- Refers to period between 2002 - 1Q 2013
- ^ CAGR, refers to period between 2001 - 1Q 2013

*Source: Bank Negara Malaysia*
Successful recycling of resource rent toward capital spending and less for consumption

Spending on capital expenditure was high, financed by the resource rent from PETRONAS

Source: CEIC, World Bank staff calculations
Successful horizontal and vertical diversification of the economy away from commodities

**Horizontal diversification towards other source of growth**

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>33.1</td>
<td>15.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>17.2</td>
<td>24.9</td>
</tr>
<tr>
<td>Services</td>
<td>43.1</td>
<td>54.6</td>
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</tbody>
</table>

**Vertical diversification towards higher value-added products**

<table>
<thead>
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<th>1980</th>
<th>2012</th>
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</thead>
<tbody>
<tr>
<td>Primary commodities</td>
<td>77.2</td>
<td>24.2</td>
</tr>
<tr>
<td>Resource-based Manufacturing</td>
<td>5.4</td>
<td>23.3</td>
</tr>
<tr>
<td>E&amp;E</td>
<td>10.7</td>
<td>36.5</td>
</tr>
</tbody>
</table>

Source: Economic Planning Unit and Department of Statistics, Malaysia

Source: Department of Statistics, Malaysia
Inflation and wage pressures were contained

Inflation rates have been low compared to peers

Wage growth in manufacturing has been relatively stable, and lower than productivity growth

Index 1Q 2001=100

- **CAGR**
  - Productivity: 3.2%
  - Wages: 2.7%

Source: Department of Statistics, Malaysia, CEIC & BNM staff calculations
PREREQUISITE FOR DEVELOPMENT

SUSTAINED GROWTH
- Legal framework
- Policy & regulations

Strong governance

TECHNOLOGY
- Visionary leadership
- CAPABILITY
- Foresight
- Education & Training

Political stability
- Political stability

Abundance of natural resources
- Abundance of natural resources

TRANSPORTATION & LOGISTIC
- Connectivity & Communication

INFRASTRUCTURE
- Sound planning mechanism
- Incentives & Funding
- Investment opportunities

FORESIGHT & FUTURES THINKING
- New industries

POLITICAL & SOCIAL STABILITY
HOW DID WE GET TO WHERE WE ARE?

Development Plans

Infrastructure development

STI Integration
DEVELOPMENT PLANS

Malaysia Plan (every 5 years)

1st Malaysia Plan (1966 - 1970)

National Agenda

Industry

The Green Book Programme

IMP1

IMP2

IMP3

S&T

ST1

TAP

ST2

NPSTI

VISION 2020

10th MP (2011 - 2015)

1957

2020

‘70

‘75

‘80

‘85

‘90

‘95

2000

‘05

‘10

‘15

2020
LOOKING AHEAD

VISION 2020

1 Malaysia
Preservation and enhancement of unity in diversity

Government Transformation Programme (GTP)
Effective delivery of government services

6 National Key Result Areas (NKRAs)

Economic Transformation Programme (ETP)
New Economic Model - A high income, inclusive and sustainable nation

8 Strategic Reform Initiatives (SRIs)

10th Malaysia Plan
Macroeconomic growth targets & expenditure allocation

Science & Technology Support
NATIONAL TRANSFORMATION PROGRAMMES

6 NKRA

12 NKEAS

- Reducing Crime
- Fighting Corruption
- Improving Students Outcomes
- Raising Living Standards of Low-Income Households
- Improving Rural Basic Infrastructure
- Improving Urban Public Transport

133 ENTRY POINT PROJECTS
INFRASTRUCTURE DEVELOPMENT

31 Ports
5 International Airports
500 industrial estates and Free Zones

5 Economic Corridors

KORIDOR UTARA
> 20,000 jobs

ISKANDAR MALAYSIA
817,500 jobs

EAST COAST ECONOMIC REGION
1.92 mil jobs

SARAWAK CORE
CORRIDOR OF RENEWABLE ENERGY
662,065 jobs

900,000 jobs
STRENGTHENING RESOURCES

>20 Cybercities/ Cybercentres

21 Public universities

90% of the workforce is under 30 years of age
To streamline and monitor STI projects, policies & achievements towards sustainable growth beyond 2020

GSIAC is set-up to be a sounding board in Malaysia's effort to improve and optimize it's national capabilities in the field of Science & Innovation

To pursue, encourage and enhance excellence in the fields of Science, Engineering and Technology, for the development of the nation and the benefit of mankind
THE NATIONAL POLICY ON STI

NPSTI 2013 - 2020

- Takes stock of the successes, challenges, lessons learnt and prospects of STI development at national and international levels
- Sets out a new and focused approach to harness the full potential of STI to achieve the nation’s goals
- Represents the nation’s commitment towards revitalising the national STI ecosystem
- Positions Malaysia to become a scientifically advanced nation for socio-economic transformation and inclusive growth by 2020.

HARNESSING STI FOR SOCIO-ECONOMIC TRANSFORMATION AND INCLUSIVE GROWTH

6 STRATEGIC THRUSTS

ST 1: Advancing Scientific and Social Research, Development and Commercialisation

ST 2: Developing, Harnessing and Intensifying Talent

ST 3: Energising Industries

ST 4: Transforming STI governance

ST 5: Promoting and sensitising STI

ST 6: Enhancing strategic international alliances
Improvement in technological readiness and higher education parameters are utmost important to boost Malaysia’s ranking in the global competitive index.

ISSUES & CHALLENGES

Our current standing

Our targets

Targets:
*Wave 2 (2016-2020) where Malaysia’s performance will be at par with the international average of PISA and TIMSS benchmarks; and

*Wave 3 (2021-2025) where Malaysia’s performance on PISA and TIMSS will be in the top third of PISA and TIMSS assessments.

Education is significant factor in the development of children, communities and countries
Thank you