chapter 1
New Economic Model

Chapter 1: New Economic Model of Malaysia

Malaysia has achieved significant economic and social progress over the past several decades. However, the world economy is changing, and Malaysia needs a fundamentally new economic model in order to become a high-income nation. Our historical growth engines are slowing, we risk being caught in a middle-income trap, our fiscal position is arguably unsustainable while global competition for markets, capital and talent is increasingly intense. In response, the Economic Transformation Programme (ETP) represents a marked change in approach that builds on the Tenth Malaysia Plan and input from the National Economic Advisory Council (NEAC). The ETP focuses on key growth engines or National Key Economic Areas (NKEAs). It relies heavily on private sector-led growth, describes very specific investments and policy actions and has a clear transparent implementation roadmap with strong performance management.

MALAYSIA HAS MADE SIGNIFICANT PROGRESS

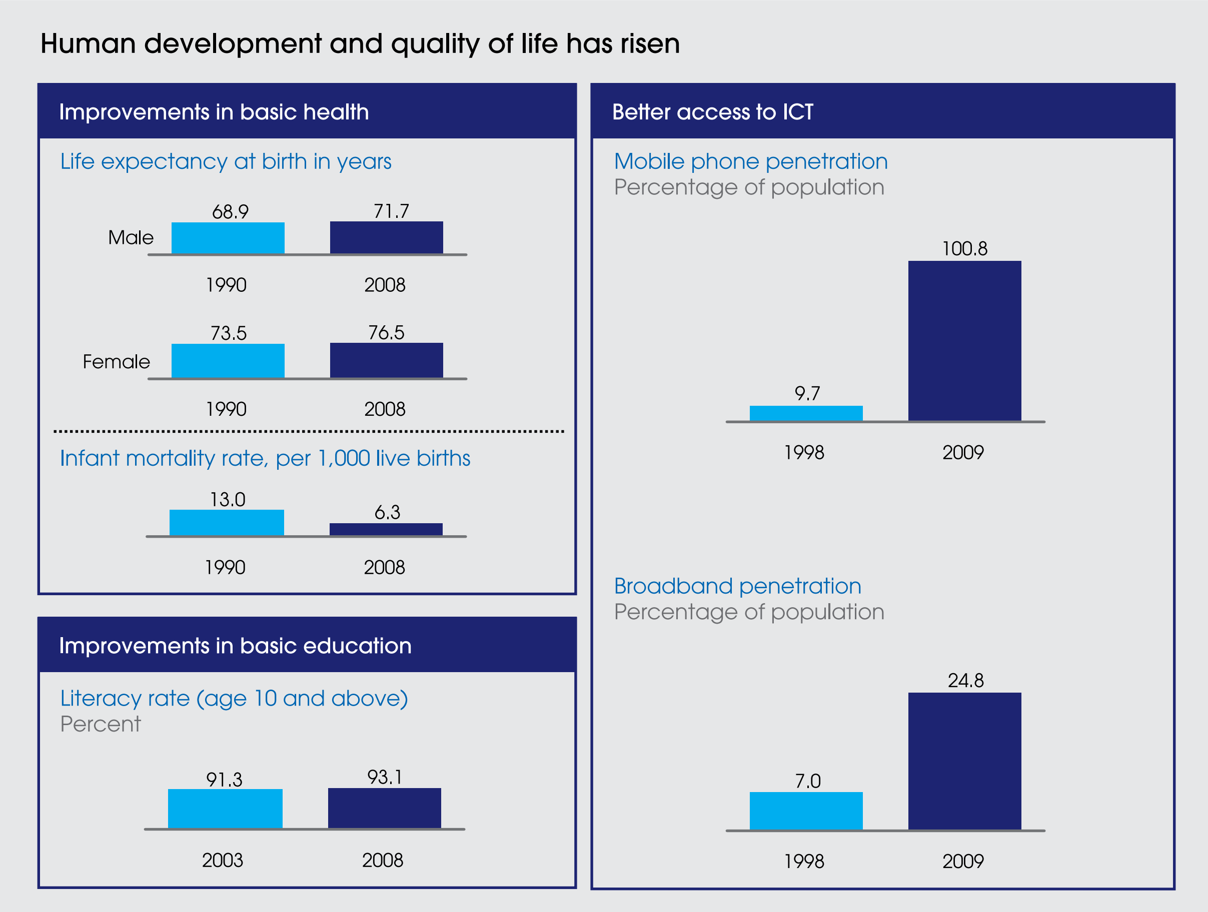
Sustained rapid economic growth has raised Malaysia from an agricultural and commodity-based low-income economy to a successful middle-income economy. Our story of moving from low-to middle-income status is one of the world's success stories of the past few decades. Since 1945, Malaysia is one of only 13 countries[1] to have sustained growth of over 7 percent or more for 25 years.

This strong economic performance has helped improve the quality of life for Malaysians and supported advances in education, health, infrastructure, housing and public amenities, some of which are shown in *Exhibit 1-1*.

Growth has also been accompanied by a near-eradication of hardcore poverty, which fell from 6.9 percent in 1984 to 0.9 percent in 2010. Primary school enrolment is now nearly universal. Basic healthcare has improved in the past two decades with life expectancy rising and infant mortality rates falling significantly. As a result, Malaysia's score in the United Nations Human Development Index rose from 0.67 in 1980 to 0.83 in 2007, surpassing the 0.8 score benchmark for countries with high standards of human development.

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

Exhibit 1-1



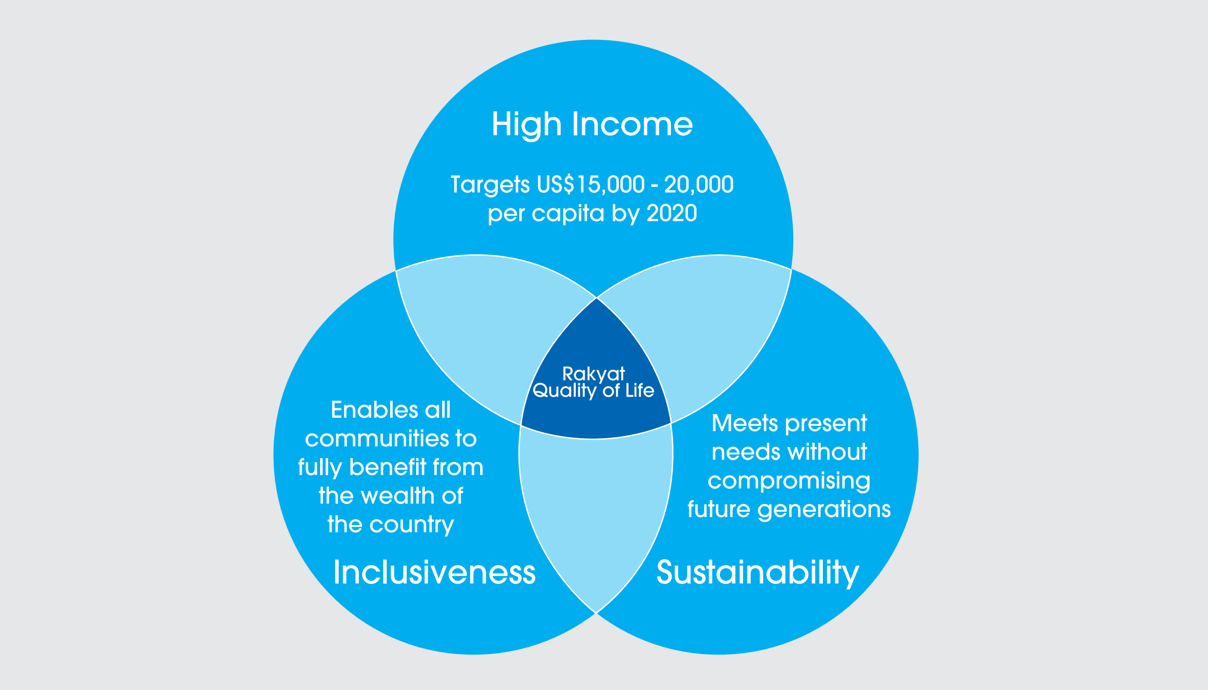
SOURCE: Ninth Malaysia Plan; Ministry of Health; Ministry of Education; Malaysian Communications and Multimedia Commission

Despite this progress, significant challenges remain. For example, 7 percent of the rural population live below the poverty line; only 80 percent of the workforce have education up to SPM *(Sijil Penilaian Menengah)* qualifications (high school equivalent to O-levels); and Malaysia's economic growth has been sluggish over the decade since the Asian financial crisis. Our task is to build on the platform we have established over the past few decades and create the next generation of national development.

BECOMING A HIGH-INCOME NATION THAT IS BOTH INCLUSIVE AND SUSTAINABLE

The Government is aiming for Malaysia to become a high-income nation that is both inclusive and sustainable by 2020. These goals will be reached jointly. The Government will not seek short-term progress on one goal at the expense of delaying progress on the others. The ETP is designed to drive Malaysia forward from its current stagnant situation to be a high income economy which is both inclusive and sustainable as shown in *Exhibit 1-2*

Exhibit 1-2



High-income Economy

The Government defines high income as a per capita income USD15,000 or RM48,000 in 2020, based on the World Bank's current definition of high income. Malaysia's per capita gross national income (GNI) is currently about RM23,700 or USD6,700. Therefore, achieving high-income status by 2020 will require GNI to grow at an annual real growth rate of 6 percent between 2011 and 2020.

The Government's high-income objective is not just a quantitative target. It is also about Malaysia becoming an advanced, developed nation with an economy possessing the characteristics that are common to developed nations. Specifically, Malaysia will focus on developing:

- A large and thriving services sector, to supplement the nation's historical strengths in oil and gas, agriculture and manufacturing;
- A balanced economy, with significant contributions from private consumption and investment as well as from government spending and exports. In developed countries domestic demand typically accounts for 50 to 70 percent of GDP. In Malaysia it is currently 53 percent; and
- Productivity levels similar to those of other leading Asian economies. Achieving this will require developing an economy that is more heavily driven by skills, innovation and knowledge.

These three structural shifts in the economy will support Malaysia's ongoing growth and will enable Malaysia to compete more effectively with other developed nations in the region and beyond.

Inclusive Society

The way in which Malaysia grows to achieve this high-income target will be inclusive in nature, enabling all Malaysians to share in the benefits. The Government will encourage employment-rich growth that creates new higher-wage jobs. We will also invest in education and training to ensure that more Malaysians are able to participate in these new opportunities.

A key focus will be on ensuring that substantial improvements are made for people with the lowest household incomes. Specific attention will be paid to lifting the incomes of the bottom 40 percent of households, with a target of increasing the mean monthly income of this group from RM1,440 in 2009 to RM2,300 in 2015, as stated in the Tenth Malaysia Plan.

Sustainable Growth

The measures we take to achieve high-income status must be sustainable in both economic and environmental terms, meeting present needs without compromising those of future generations.

In economic terms, growth will have to be achieved without running down Malaysia's natural resources. Malaysia will not achieve high-income status simply through the income derived from extracting Malaysia's natural resources.

In addition, Malaysia's fiscal policy will be made sustainable. There will be a much stronger focus on investment led by private sector that will avoid reliance on government funding. As stated in the Tenth Malaysia Plan, the Government is committed to reduce its fiscal deficit from 7 percent in 2009 to 3 percent in 2015.

In environmental terms, the Government is committed to the stewardship and preservation of our natural environment and non-renewable resources. The Government will ensure that environmental resources are properly priced and that the full costs of development are understood before investment decisions are made.

BUSINESS AS USUAL IS NOT ENOUGH

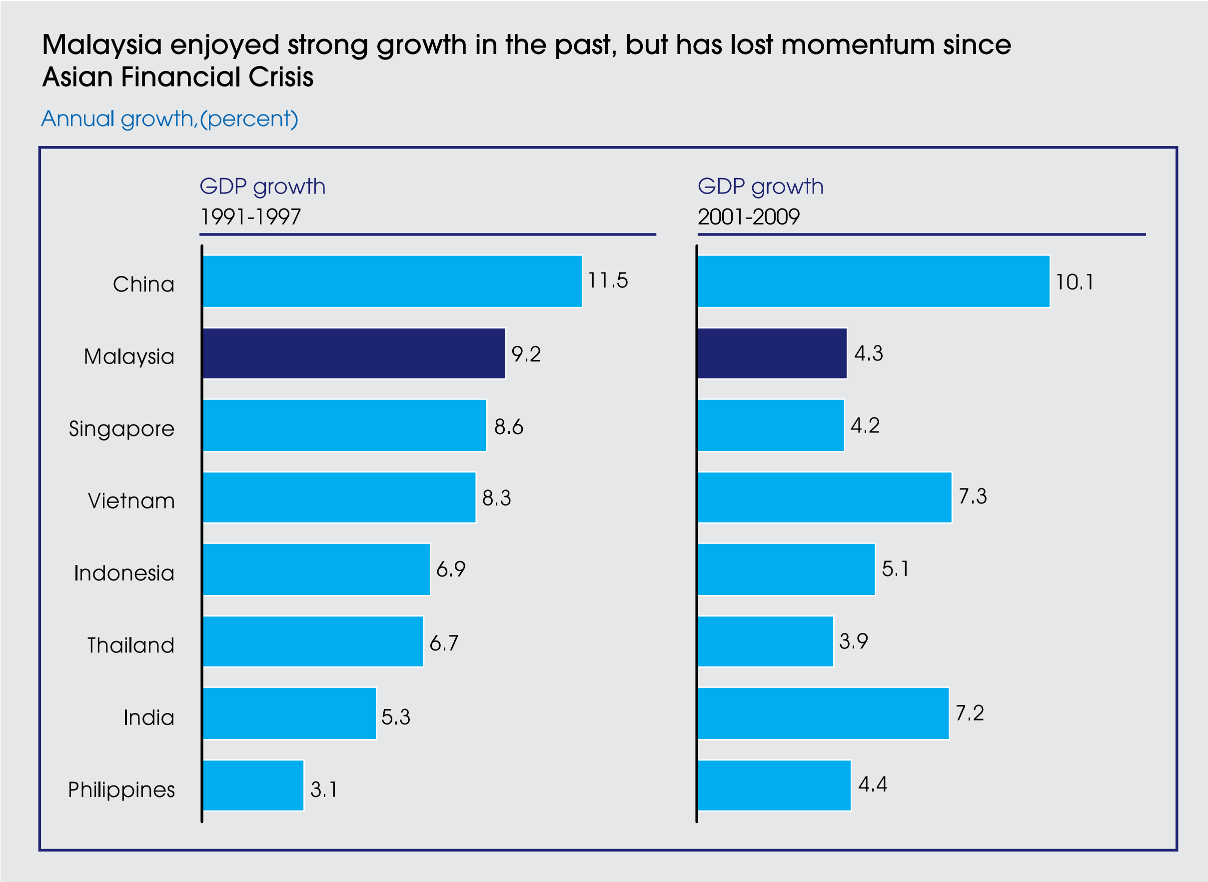
Business as usual will not be enough to deliver on the goals of high income, inclusiveness and sustainability. Malaysia is at a critical point in its economic development. There has been a loss of growth momentum over the past decade, and it has become increasingly clear that the historical drivers of growth can no longer be relied on to deliver strong economic outcomes. In an increasingly competitive global economy it is more difficult to generate high rates of economic growth. Growth can no longer be taken for granted, but needs to be earned.

To achieve developed nation status by 2020, economic growth of 6 percent a year will be required. Delivering this level of growth demands a comprehensive, structured transformation of the economy.
The following are four key reasons why a fundamentally new approach is required.

Historical Growth Engines are Slowing Down

Malaysia's relatively sluggish economic performance over the past several years indicates that the historical engines of Malaysia's economic growth are slowing down . After strong growth through much of the 1990s, Malaysia's economic growth over the past decade has been considerably slower – at about half of the average of the previous decade, as shown in *Exhibit 1-3*.

Exhibit 1-3

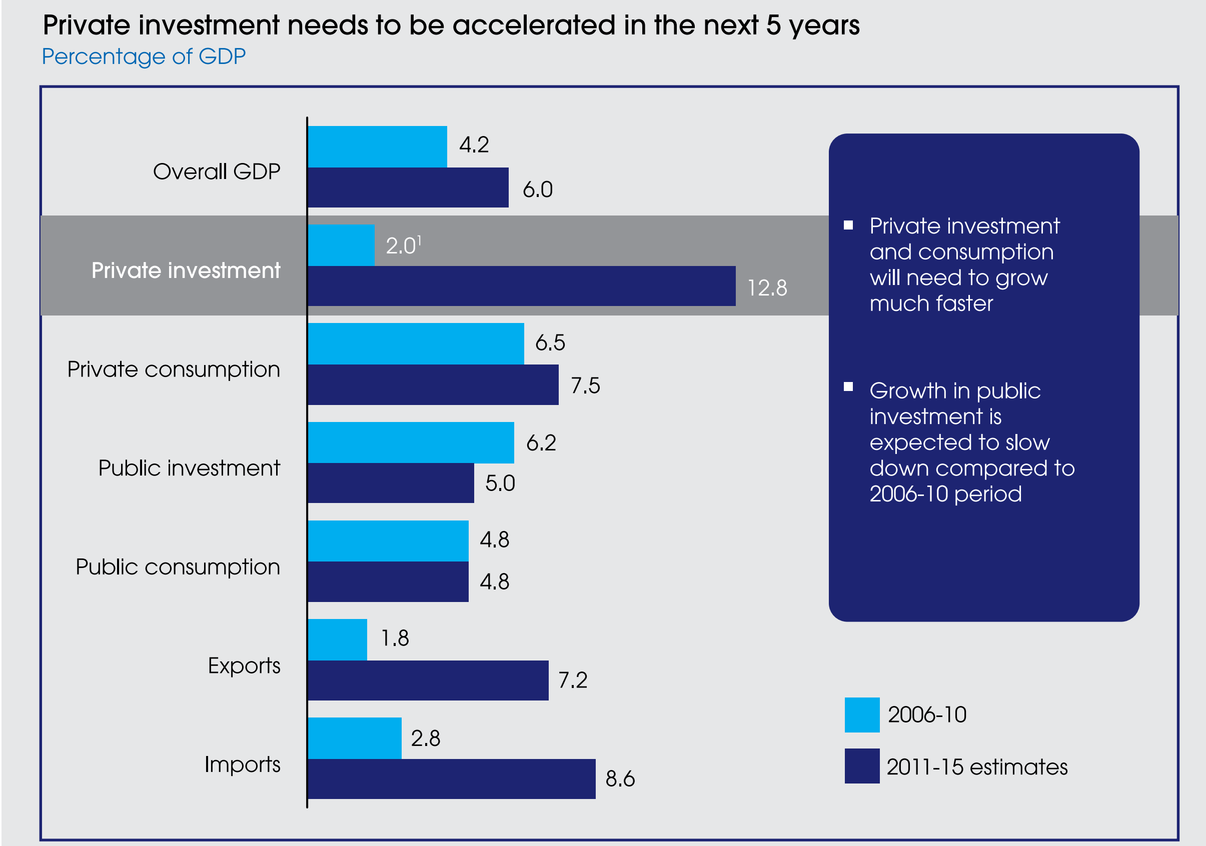


SOURCE: World Economic Outlook (April 2010), International Monetary Fund

A large part of the reason for this relatively poor growth performance has been slow labour productivity growth. Transforming Malaysia's economic performance will therefore require a transformation in productivity growth.

Delivering this transformation will require significant improvements in two areas. First, the level of business investment will need to be substantially increased. Private investment grew at just 2 percent per year over the past five years rather than the 10 percent projected in the Ninth Malaysia Plan. The Tenth Malaysia Plan estimates that achieving the 6 percent annual growth rate required to achieve high-income status will require annual growth of private investment of 12.8 percent to 2015, as shown in *Exhibit 1-4*.

Exhibit 1-4



1 Private investment contracted by 17.2% in 2009

SOURCE: Economic Planning Unit and Department of Statistics Malaysia

Private sector investment growth has slowed considerably relative to the pre-1997 period for reasons including the high cost of doing business in Malaysia, lengthy bureaucratic procedures, investors' concern about the availability of skilled professionals and inadequate opportunities for investment.

Second, enhanced investments in human capital will be made to support an economy based on high-skilled labour, knowledge and innovation. Malaysia cannot move to high-income status by retaining its reliance on ready access to a low-cost, low-skilled workforce. In addition, labour force growth is expected to be slower, meaning that there will need to be a renewed focus on productivity as a growth engine.

This need to find new growth engines is reinforced by Malaysia's declining domestic reserves of oil and gas. Malaysia will need to find new sources of income to compensate for reduced income from its natural resources.

Risk of Being Stuck in the Middle

There are also signs that Malaysia is at risk of being stuck in the middle-income trap, as shown in *Exhibit 1-5*. Malaysia is no longer able to remain competitive with low-income countries as a high-volume, low-cost producer. At the same time it has not yet moved up the value chain and become competitive with high-income countries. Other countries are more competitive than Malaysia in both low-cost production and in high-value markets. This is not a sustainable position.

Strategies that were successful in driving Malaysia's transformation from a poor country, reliant on rubber and tin at Independence into a diversified middle-income economy, are not appropriate for the next stage of Malaysia's developmental journey.

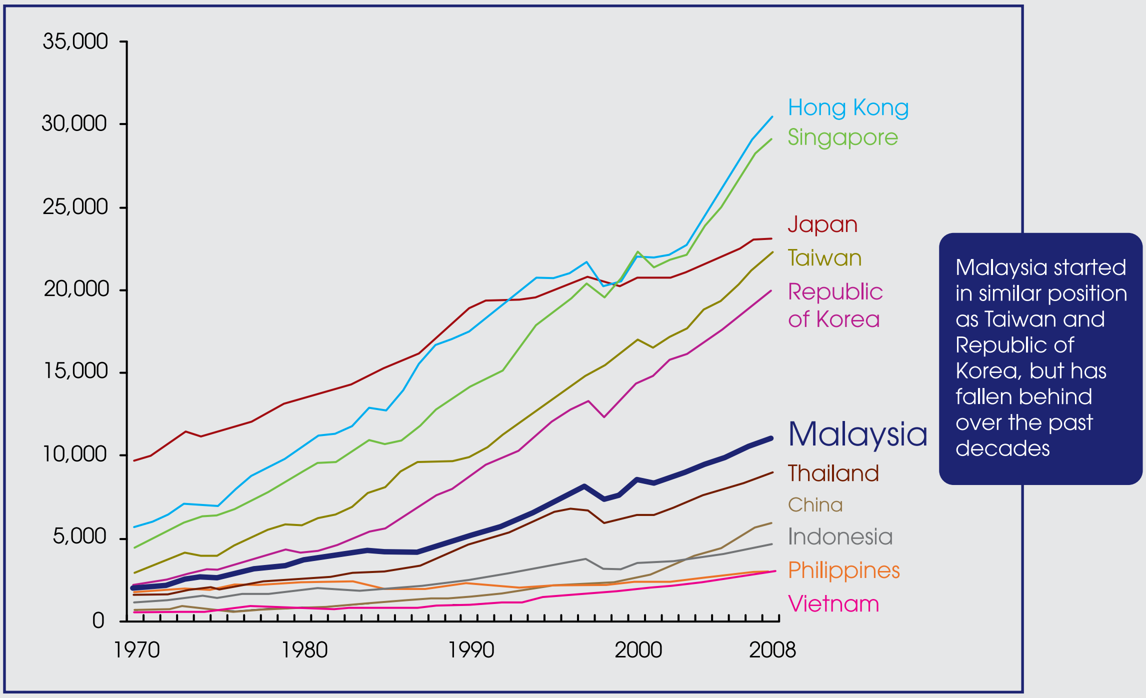
Indeed, many other countries that grew rapidly through the 1970s and 1980s found it difficult to continue their growth once they reached middle-income status. Of the 13 countries to have sustained 7 percent growth for 25 years or more, just 6 have successfully transitioned to high-income status. It was only those countries that undertook a systematic programme to transform the underlying structure of their economies that were able to rise from middle-income status to become high-income countries.

Exhibit 1-5

Malaysia risks being stuck in the middle-income trap

GDP per capita 1970-2008

USD (PPP)



SOURCE: *The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2009*

An Unsustainable Fiscal Position

Malaysia has run fiscal deficits every year since 1998, with a deficit of 7 percent of GDP recorded for 2009, as shown in *Exhibit 1-6*. Public debt levels are expected to reach over 60 percent of GDP by 2015. Moving back to fiscal sustainability and achieving the Government's commitment of a deficit of 3 percent of GDP by 2015 will require a marked change in direction.

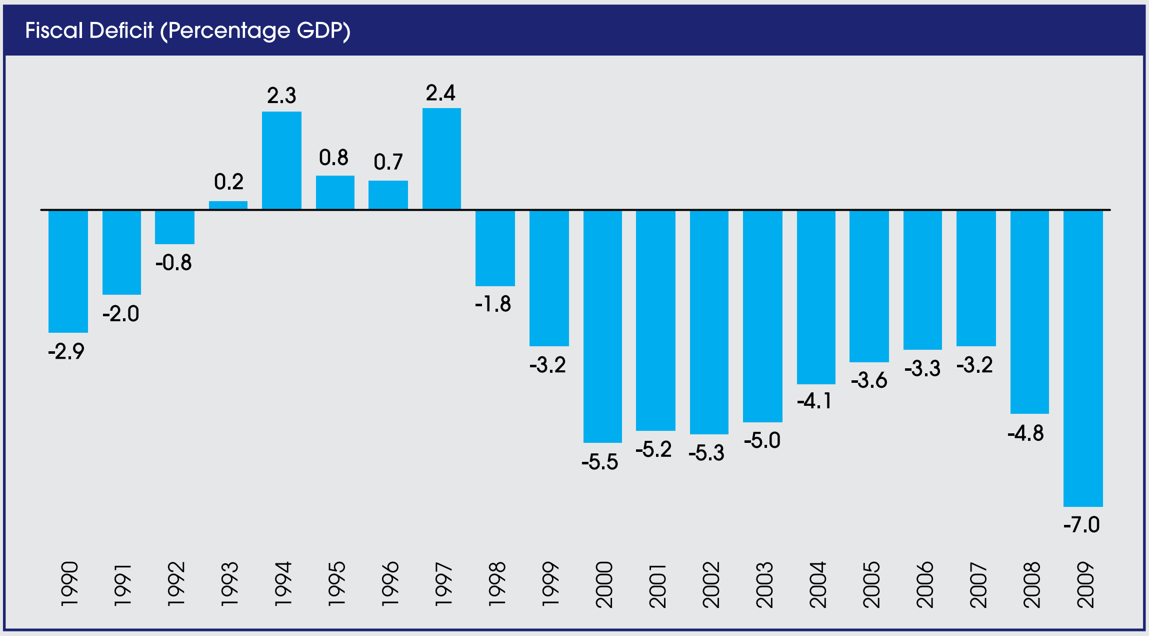
This fiscal consolidation is imperative for Malaysia. Investor attitudes to sovereign debt have changed significantly over the past two years, and capital markets may be less inclined to finance sovereign debt on the terms they have extended in the past.

There is also increasing evidence of fiscal policy competition between countries, with governments cutting corporate tax rates to obtain a competitive edge. In order for Malaysia to offer competitive personal and corporate tax rates, while at the same time invest in education, research and infrastructure, it will need to strengthen its fiscal position substantially.

This task is made more challenging by the projected decline in domestic petroleum production over the next decade as historically revenues from this source has been a significant contributor to government revenues. In this context, fundamental changes need to be made to fiscal policy. There is a need to widen the Government's tax revenue base so that a much greater share comes from broad-based income and consumption taxes (such as a goods and services tax). In addition, expenditure on subsidies will be rationalised significantly to channel these resources to only those in need. Tight fiscal discipline will be imposed across the board.

Exhibit 1-6

Increasing deficit limits flexibility of Government to stimulate economy

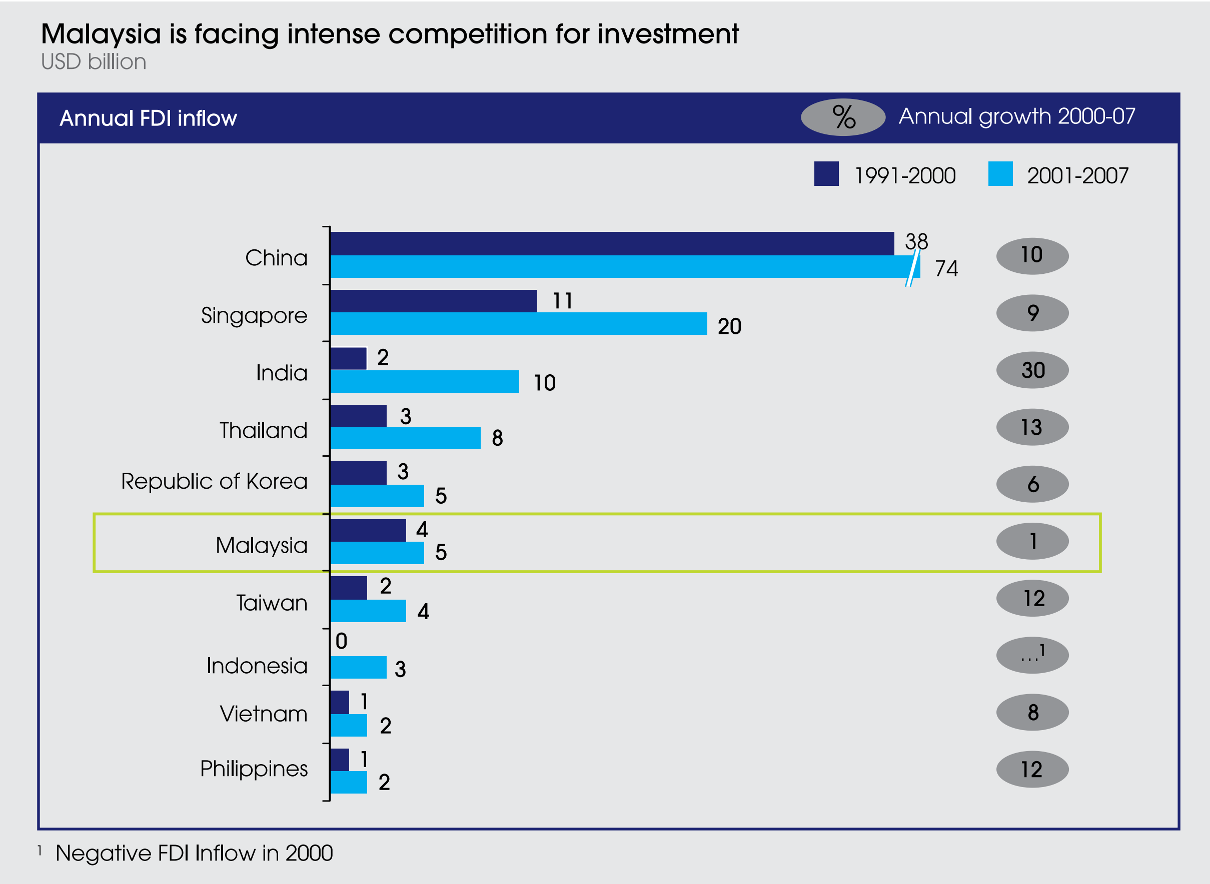


Increasing Global Competition for Markets, Capital and Talent

The global economy is becoming much more competitive. The emergence of new, highly competitive regional and global companies has eroded the strong position of Malaysian-based companies in the manufacturing and services sectors. Malaysia will need to work much harder to achieve and sustain competitive advantage, namely by investing in infrastructure and human capital and ensuring that the tax and regulatory environment is conducive to growth.

In addition, firms, investors and talent, have an increasing number of opportunities and location options. Therefore Malaysia needs to demonstrate a clear value proposition in order to attract and retain them. Many other governments are aggressively positioning themselves to compete for firms, talent and capital. As shown in *Exhibit 1-7*, the low levels of foreign direct-investment that Malaysia has received over the past decade are one indication of a weakening competitive position.

Exhibit 1-7



SOURCE: Euromonitor; Economist Intelligence Unit

Given the shortage of high-wage employment opportunities at home, Malaysia is also losing talent through the emigration of Malaysians, many of them with tertiary qualifications. More than 700,000 Malaysians now live and work in other countries. Until Malaysia is able to generate stronger economic growth and to create opportunities for people, it will struggle to attract and retain talent.

THE ETP IS PART OF A COMPREHENSIVE GOVERNMENT AGENDA

The ETP is the culmination of a substantial body of work to develop the Government's economic agenda in response to this emerging environment. However it is not intended to dictate sector-specific policies, but rather serve as input, for example into the Financial Sector Masterplan by Bank Negara Malaysia or the Securities Services Masterplan by the Securities Commission. It also serves to complement existing programmes with similar objectives. For example, the GLC Transformation Programme that seeks to build regional and global champions will support the delivery of the ETP. There are several key common foundations for the ETP.

1Malaysia, People First, Performance Now

The 1Malaysia concept seeks to reinforce national unity, with respect for the values of the different communities, and is anchored on the principle of fairness and equity. In economic terms, this means that opportunities and growth will be shared equitably. 'People First' refers to a *rakyat*-centric approach to planning and delivery, and 'Performance Now' shows the Government's determination to have a sharp focus on delivery and results.

Government Transformation Programme

The Government Transformation Programme was introduced in 2010 to transform the Government to be more effective in its delivery of services and accountable for outcomes. The programme incorporates six National Key Result Areas (NKRAs): reducing crime, fighting corruption, improving student outcomes, raising living standards of low-income households, improving rural basic infrastructure and improving urban public transport. National key performance indicators have been specified for these NKRAs, and a new organisation, the Performance Management and Delivery Unit (PEMANDU), was created to manage delivery against these targets.

Tenth Malaysia Plan

The Tenth Malaysia Plan outlines the Government's development plan for the nation between 2011 and 2015 (to move Malaysia to high-income status by 2020). It focuses on unleashing economic growth, promoting inclusive socio-economic development, developing and retaining talent, building an environment that enhances quality of life and transforming Government. It identified the 12 NKEAs that will be the subject of prioritised policy and investment focus and that are the main focus of the ETP.

WHAT IS DIFFERENT ABOUT THE ETP

The ETP builds on the direction outlined in the Tenth Malaysia Plan to develop a markedly different approach to delivering the Government's objectives. The innovative approach in the ETP recognises that incremental improvements to the status quo will not be enough for Malaysia to become a high-income nation. There are five specific aspects of the ETP that are new and distinctive. These aspects will ensure that the ETP delivers the improved outcomes that Malaysia needs.

Focus on Key Growth Engines – 12 NKEAs

Malaysia will leverage its competitive advantages by prioritising investment and policy support behind a limited number of key growth engines. The ETP focuses on the 12 NKEAs announced in the Tenth Malaysia Plan. These NKEAs are expected to make substantial contributions to Malaysia's economic performance. Other countries have demonstrated that strategic focus is an important element of rapid economic development, particularly for small- and medium-sized countries.

Private Sector-led, Government Facilitated

The private sector will take the lead role in terms of making investment and employment decisions. The projects and opportunities that are identified in the ETP have been co-created by the public and private sectors. Importantly, most of the projects and opportunities identified will be mainly funded from private sources. The Government's role will be that of an active facilitator of the private sector through resource and policy support, rather than the principal driver, as it has been in the past. Increasingly, Malaysia will be a developed economy in which the private sector is the primary engine of national growth.

131 Entry Point Projects to Jump-start the Programme

The ETP is focused on action not concepts. The ETP contains well-developed and specific ideas and actions to grow each of the NKEAs, rather than broad statements of intent. These ideas have been developed through collaboration between the public and private sectors, and in many cases these projects are close to being launched. The ETP also identifies a series of specific policy and regulatory reforms that are needed to drive growth in NKEA sectors and the overall Malaysian economy. Specific recommendations are made as to the required actions for these policy and regulatory reforms.

Anchoring on GNI to Get Value for Money

The projects and initiatives have been selected on the basis of rigorous financial and economic analysis to ensure that they maximise the return on investment, particularly on public sector investment. In a challenging fiscal environment, value for money has been a guiding principle. Government spending and investment will be directed only to those areas where it can be used in a highly productive manner.

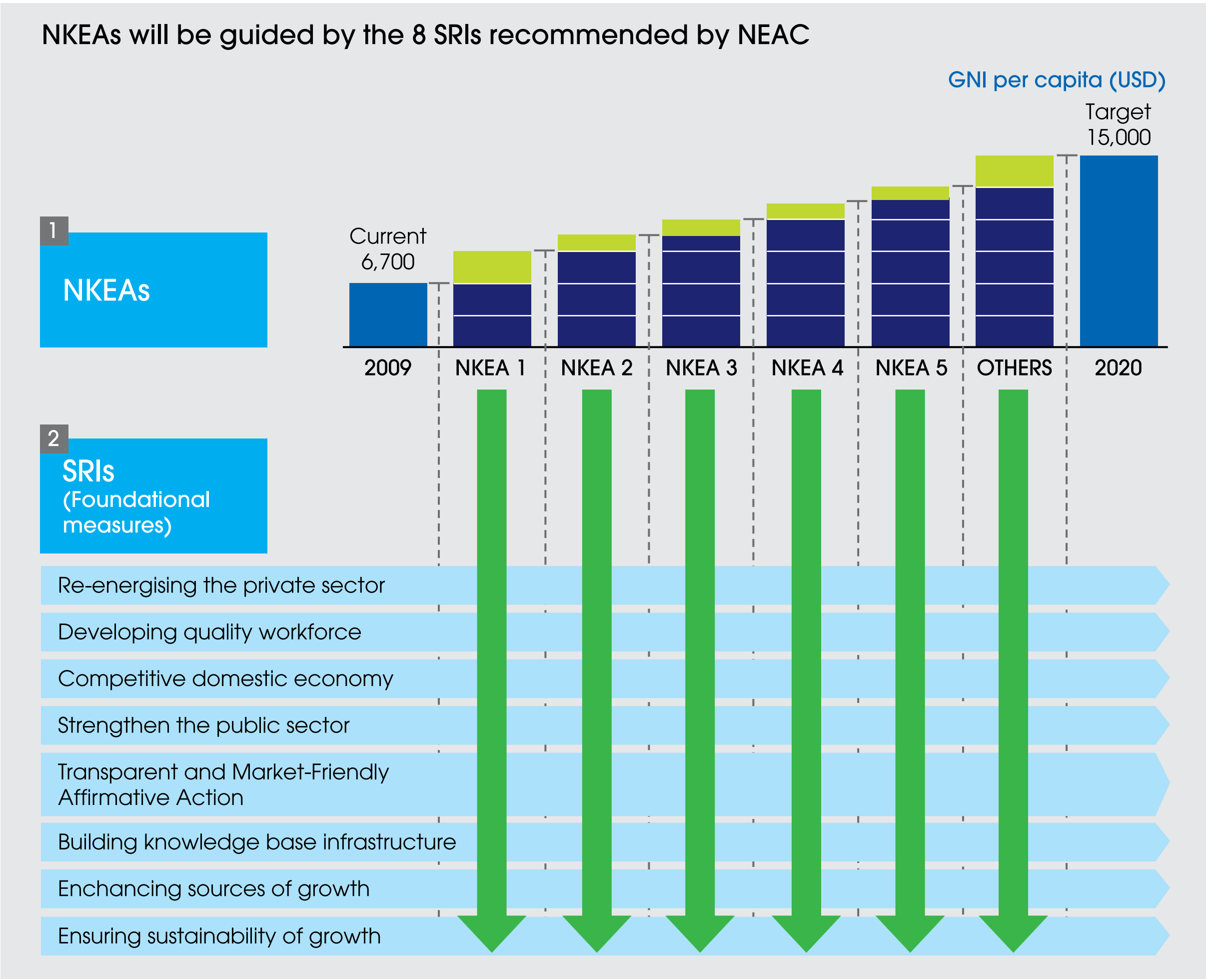
PEMANDU to Ensure Strong, Transparent Delivery

The Government has established an ETP Unit in PEMANDU to facilitate delivery and monitor this programme of change. Clear and demanding key performance indicators will be specified for each of the individual NKEAs and for Malaysia's overall economic performance. These performance measures will be reported publicly every year.

Guided by the Foundational Measures recommended by NEAC

The Economic Transformation Programme (ETP) will transform Malaysia into a high income, inclusive and sustainable economy. The NKEAs will be guided by the foundational measures (SRIs) recommended by the NEAC, as shown in *Exhibit 1-8*.

Exhibit 1-8



OVERVIEW OF THE NKEAS

NKEAs are at the core of the ETP. An NKEA is defined as a driver of economic activity that has the potential to directly and materially contribute a quantifiable amount of economic growth to the Malaysian economy. The 12 NKEAs are: Greater Kuala Lumpur/Klang Valley; Oil, Gas and Energy; Financial Services; Wholesale and Retail; Palm Oil; Tourism; Electronics and Electrical; Business Services; Communications Content and Infrastructure; Education; Agriculture; and Healthcare. Of the 12 NKEAs, 11 are industry sectors and one – Greater Kuala Lumpur/Klang Valley – is a geographical sector.

How were the 12 NKEAs Selected

The NKEAs were selected based on their expected contribution to GNI in 2020, and thus the extent to which these sectors can assist Malaysia to achieve high-income status. This was based on an assessment of the growth opportunities in the sector and Malaysia's ability to capture these opportunities. To achieve consensus on the initial portfolio of NKEAs, the Government conducted analysis on the economic performance of all of the sectors, looked at forecasts of sectoral growth and reviewed sector studies. In addition, a Thousand Person Workshop was convened in May 2010. The participants in the workshop were leaders from the public and private sectors, research institutions and civil society. The objective of the workshop was to prioritise the key sectors of growth for Malaysia until 2020.

This workshop commenced with 20 mini-workshops (consisting of 30 to 70 participants each) on 20 sectors of the economy. The mini-workshops were provided with historical sector growth rates, independent forecasts for the sectors and international benchmarks for economic growth. Participants in each mini-workshop debated the growth potential of that sector and provided an estimate of the likely growth rate for that sector through to 2020. Once the growth rates for all sectors had been estimated, all workshop participants were surveyed. The results of the survey were used to create a list of potential NKEAs. This list was consistent with subsequent economic analysis and was endorsed by the Cabinet.

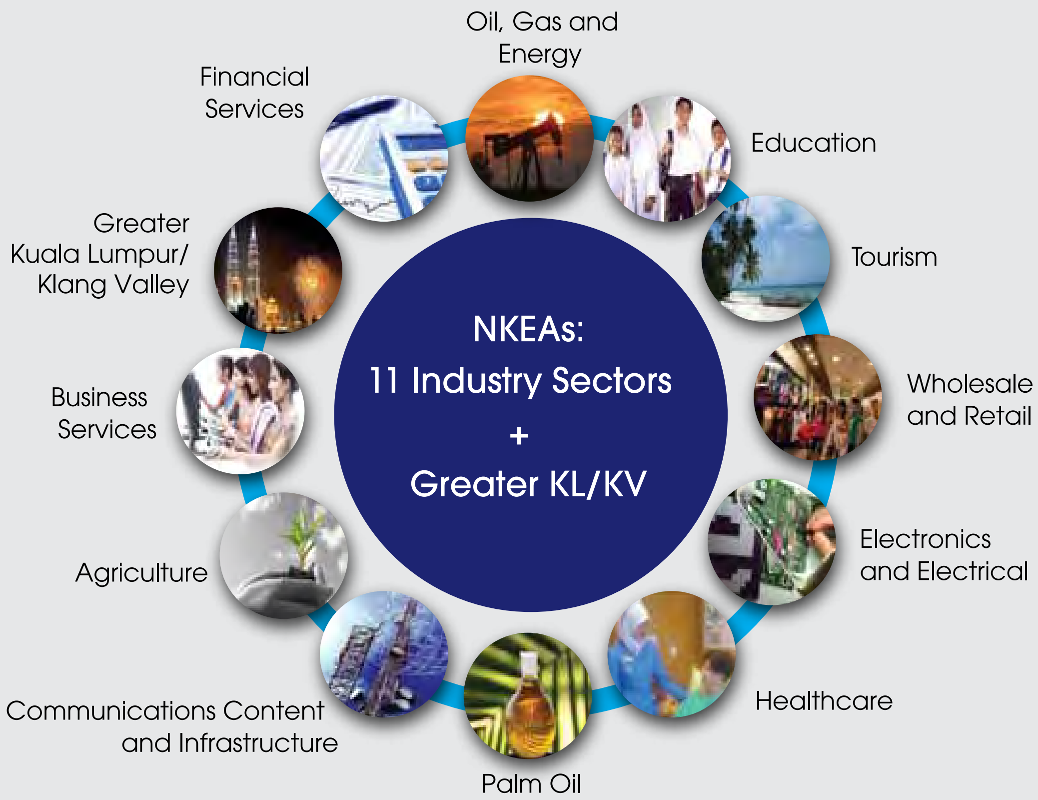
In addition to the 11 industry sectors, Greater Kuala Lumpur/Klang Valley was selected as an NKEA through a separate process. Kuala Lumpur currently accounts for about one third of Malaysia's GDP. Cities are significant drivers of growth, and a thriving Kuala Lumpur is vitally important to the health and performance of the overall Malaysia economy. On average, cities have productivity three times higher than in rural areas. Kuala Lumpur, as Malaysia's primary city, will therefore be a critical driver of economic growth.

The 11 sectors are expected to deliver 74 percent of the GNI growth potential over the next decade. Overall, these NKEA sectors are sectors in which Malaysia has current or potential competitive advantage, representing a mix of service, manufacturing, agriculture and extractive industries. These sectors are spread across urban and rural areas and are likely to support growth in the rest of the economy.

The way in which these NKEA sectors grow and develop will be consistent with the Government's inclusiveness and sustainability goals. These sectors employ 59 percent of the working population, and so growth in these sectors will generate broad benefits.

Exhibit 1-9

11 industry sectors were prioritised in addition to Greater KL/KV



The portfolio of NKEA sectors, as shown in *Exhibit 1-9* will evolve over time, depending on the performance of various sectors in the economy. The 12 NKEAs shown are not permanent choices, but will be formally assessed at points in the future. There will be a rigorous process to remove slow-growing sectors from the NKEA portfolio as well as to identify emerging areas of growth that may be added to the NKEA portfolio. This process is described in more detail in Chapter 4. This is important because the 2020 GNI criteria means that the initial list of NKEAs are either existing large sectors of the economy or medium-sized sectors with strong growth prospects. But there are several small sectors in the economy, with strong growth prospects, that will likely grow to become significant GNI contributors in the future. As these sectors develop, it may be likely that they will become candidates for NKEA status.

What Does it Mean to be an NKEA

Malaysia will focus its economic growth efforts on NKEAs. NKEAs will receive prioritised Government support including funding, top talent and Prime Ministerial attention. In addition, policy reforms such as the removal of barriers to competition and market liberalisation will be targetted at the NKEAs. The Tenth Malaysia Plan notes that the comprehensive review of business regulations that will be undertaken to improve the business environment will commence with the regulations that impact the NKEAs.

This focus will involve deliberate choices and trade-offs. Prioritising investment in NKEA sectors implies reducing investment in other sectors. The designation of sectors as NKEA sectors has to have real resource implications if it is to lead to meaningful change. The same philosophy of prioritisation will also apply to other support provided by the Government to these sectors, such as operating expenditure and efforts aimed at sector-specific policy and regulatory change.

The non-NKEA sectors will also benefit from policy measures that will improve the general business environment. This includes the policies announced in the Tenth Malaysia Plan, such as infrastructure investment, a revamped Malaysia Productivity Corporation and reduced business compliance costs amongst others.

The Government is committed to the ongoing support of growth in the non-NKEA sectors. However, the Government will focus its efforts on the NKEAs because of the significance of the GNI contribution that these parts of the economy can drive.

Why is Focusing on the NKEAs Important

Malaysia's success in transforming itself from a poor country at Independence to a middle-income economy today was driven largely by a deliberate diversification strategy. Initially, competitiveness across multiple sectors could be supported by our generally low-cost base. However, an excessively diverse strategy is no longer sustainable, given that Malaysia can no longer rely on a low-cost base as a source of competitive advantage.

In today's globalised economy, production networks are increasingly regional thus leading to greater regional integration. 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 an ecosystem of firms and talent to drive economies of scale. Malaysia's relatively small population further limits the number of areas that its economy can specialise in and be truly globally competitive.

A shift from an initial phase of diversification across sectors towards specialisation is therefore needed. The benefits from focusing on a limited number of sectors have been observed in many other countries, such as Taiwan, Republic of Korea and Singapore. Countries that have transformed from middle-income to high-income have typically focused on priority sectors.

The Government has taken a deliberate decision to focus on a limited number of sectors in order to generate competitive strength in these areas of the economy. One of the important innovations in the ETP is the tightness of the degree of focus. In this respect, the ETP represents a new way of doing things for Malaysia. There are five key reasons why focusing on a relatively small number of sectors is important in generating economic benefit for Malaysia.

Align policies coherently

Having a clear view of the priority sectors means that it will be easier to deliver a coherent, coordinated policy agenda. It allows the Government to align policies in a range of different areas, such as education, infrastructure and immigration policy, behind a common objective.

Avoid sub-scale investment

To achieve substantial and sustained impact, the investment and other commitments made to a particular sector need to be meaningful. If investments are spread across too many sectors, the risk is that the investments are diluted to a scale that is not sufficient to achieve transformational change. This is a particularly important for small- and medium-sized countries.

Develop a clear value proposition

Having a limited number of priority sectors contributes to establishing a clear national-value proposition, which can be readily communicated to investors (both foreign and local). This contributes to a more positive investment environment; potential investors can be confident that government support and investment will be directed to the priority areas.

Provide leadership focus

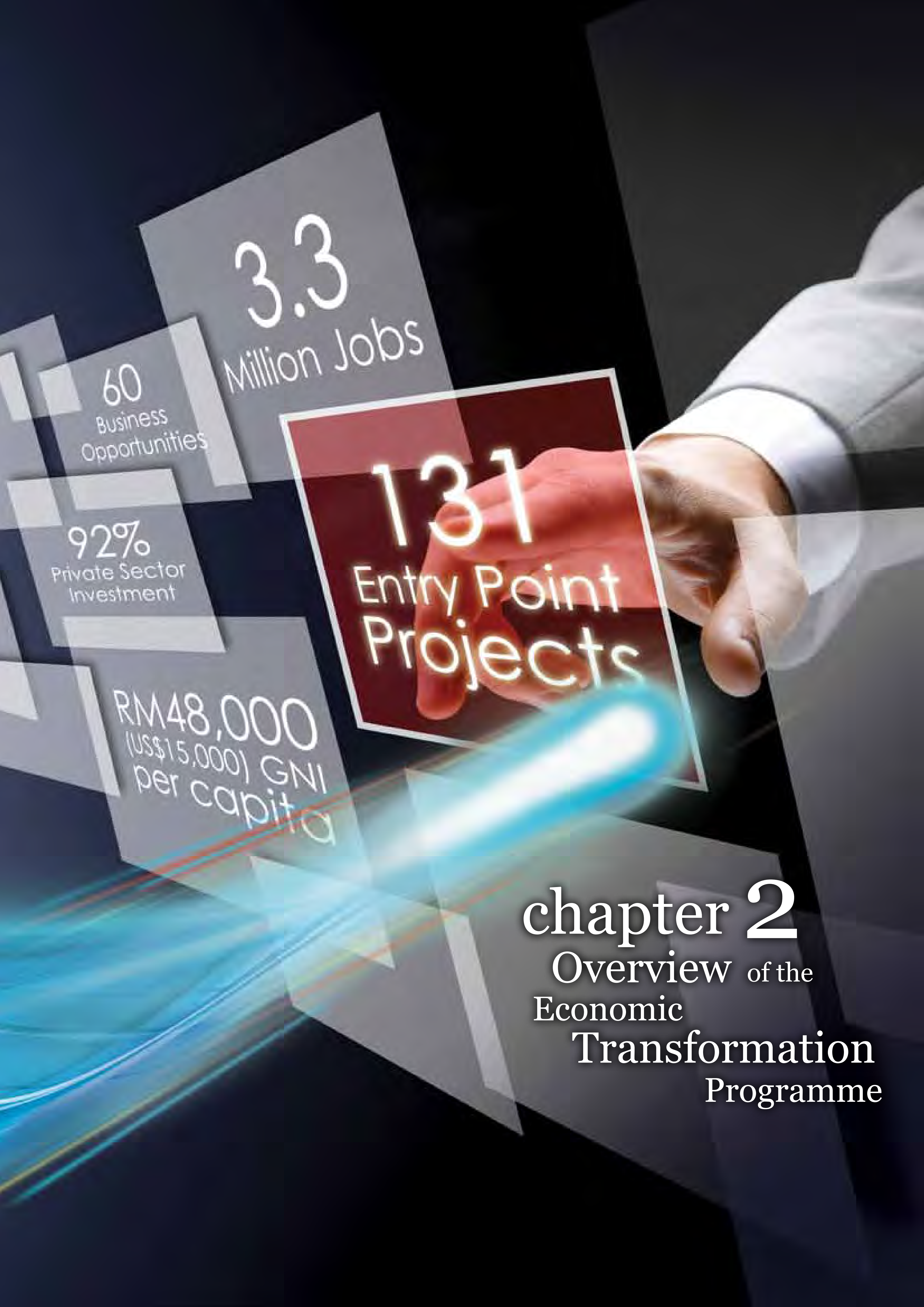
Having priority sectors means that relatively scarce government leadership time (the Prime Minister, other Ministers and senior officials) can be allocated in a meaningful way to the priority areas – rather than being spread thinly across multiple areas.

Allow for higher quality monitoring

A limited number of priority sectors makes it much easier to measure and monitor the performance of these sectors, increasing the likelihood of economic impact. Success of sector-based policy is linked to a rigorous process of monitoring – under-performance needs to be remediated and good performance rewarded. It is easier to do this in a timely manner when the focus is on a tightly-defined group of sectors.

CONCLUSION

Malaysia faces significant economic challenges. Our growth rates have slowed and global competition is increasingly intense. We face fiscal sustainability issues and we are neither a low-cost nor a high-value economy. To respond to these challenges, the ETP represents a markedly different approach while building on the Tenth Malaysia Plan and incorporating inputs from NEAC. The ETP focuses on 12 key growth engines (NKEAs), relies heavily on the private sector, is based on a series of specific projects and is anchored on GNI. The next chapter discusses the methodology we used to devise the ETP and the impact that we expect the programme to deliver.



chapter 2
Overview of the Economic Transformation Programme

Chapter 2: Overview of the Economic Transformation Programme

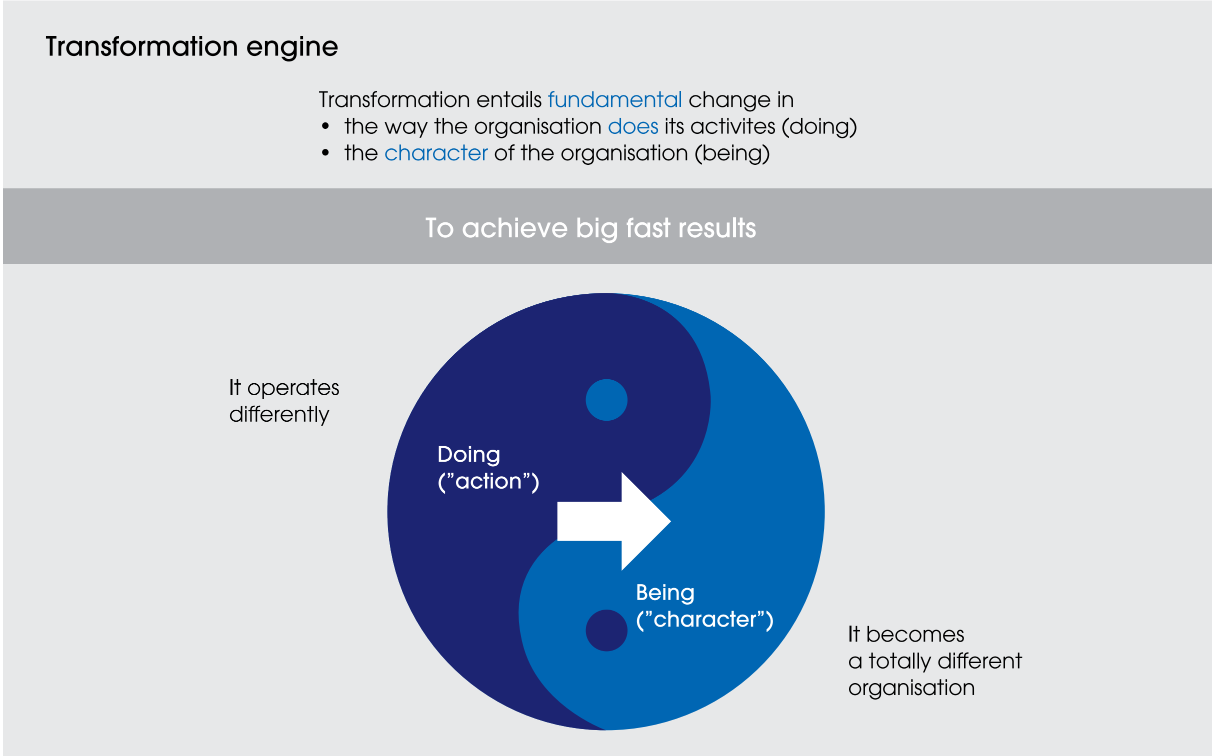
The Economic Transformation Programme (ETP) will result in Malaysia becoming a high-income nation with GNI per capita of RM48,000 or USD15,000 by 2020. As well as achieving its GNI target, by 2020 Malaysia will develop many of the characteristics of a high-income economy: services will account for over 65 percent of GDP; private consumption will account for almost 60 percent of GDP; and Malaysia's dependency on oil will be reduced from 21 percent of GDP in 2008 to 14 percent. This will be a private sector-led transformation with 92 percent of the over RM1.4 trillion of investment required coming from the private sector. Finally, the ETP will raise income levels across Malaysia by creating an additional 3.3 million jobs, over 60 percent of which will be in medium-income or high-income salary brackets.

The ETP requires Government to play a new role as a facilitator of economic growth – liberalising markets, incentivising investment, removing barriers and letting the private sector lead. This role will be critical to mitigate the risks to the programme and to ensure successful delivery.

DEVELOPING THE ECONOMIC TRANSFORMATION PROGRAMME

The ETP is not about incrementally improving Malaysia's economy, it is about transforming it. We believe that transformational change is achieved by changing how things will be done, which in turn changes how things will be. This means that by fundamentally changing how things are done in the economy, we will change the character and structure of the economy and thus achieve transformation *(Exhibit 2-1)*.

Exhibit 2-1



Therefore we believe the starting point for the ETP should be the implementation of concrete changes in specific parts of the economy. That is why the 12 National Key Economic Areas (NKEAs) were selected. That is also why a programme of 12 labs was conducted, one for each NKEA.

Each lab was asked to determine concrete initiatives and projects that would drive the economic transformation necessary for Malaysia to become a developed nation by 2020. The 12 labs, covering the 11 economic sectors and the development of Greater Kuala Lumpur/Klang Valley, were represented by the private sector and civil service and facilitated by PEMANDU (the Performance Management and Delivery Unit under the Prime Minister's Department). In all, 500 people participated, the majority of whom came from the private sector.

The ideas generated in the ETP labs were anchored on the policy direction set out in the Tenth Malaysia Plan, including a private sector-led economy, market liberalisation to drive and encourage growth through innovation, development of world-class talent and investment in improving infrastructure.

The labs, which ran for eight weeks, provided the private sector an opportunity to work on and shape a transformative, sector-specific strategy and roadmap. Each lab set out a detailed plan that describes the aspirations, strategies and concrete action plans for one of the 12 NKEAs. These plans include the required funding, investment and labour necessary to deliver the stated aspirations. Critical to the success of the labs was intense syndication and debate among multiple stakeholders including industry experts (international and domestic), potential investors, regulatory bodies and the Government. These syndication sessions helped ensure that the initiatives were tangible and realistic.

What is a lab?

A lab is an intense forum in which relevant participants (from private sector corporations and public sector agencies) are brought together in a group with the objective of finding radical yet practical and specific solutions to problems. The lab creates an environment for participants to experiment, rigorously debate and challenge the status quo. During the course of a lab, participants conduct brainstorming sessions to generate ideas, conduct analysis to determine the feasibility of those ideas and test and refine them with multiple stakeholders.

Guidelines for the ETP labs

In developing ideas, the labs were given specific guidance on the types of projects and initiatives expected so that initiatives would:

- Contribute significantly to GNI;
- Emphasise private investment-led projects with Government playing the role of a facilitator. Investment from the Government should not exceed 10 percent of the total project investments;
- Be fiscally neutral or reduce the deficit;
- Strengthen sector fundamentals and move Malaysia to higher value-added activities;
- Allow Malaysia to reduce its dependence on resource-intensive sources of growth;
- Shift the income distribution towards high-income segments; and
- Reduce the number of Malaysians in low-income brackets.

Methodology

The labs were asked to identify initiatives that would kick-start Malaysia's economic growth. Every initiative proposed by the labs is therefore anchored on its impact on Malaysia's GNI. For each initiative the labs were also asked to calculate the private investment and public funding needed and the labour market implications in terms of new jobs created and skills required.

The GNI impact for each initiative was calculated based on the income approach, as illustrated in *Exhibit 2-2*. The approach was syndicated with and endorsed by the Economic Planning Unit, Ministry of Finance, Bank Negara Malaysia and Department of Statistics.

Exhibit 2-2

GNI is calculated using a simple methodology approved by experts across Government

GNI calculation method defined...

GNI: Economic Output accruing to the residents of a country = GDP Economic Output produced within the boundary of a country +/− Net income from abroad Net income from labour and capital to and from foreigners

- GDP is calculated using the Income approach (Value-add by sector): GDP = EBITDA[1] + Employee Compensation

- Corporate:
  - + Income earned by Malaysia corporations abroad
  - − Income earned by foreign corporations in Malaysia
- Individual:
  - + Income repatriated by Malaysians living abroad
  - − Income repatriated by foreigners living in Malaysia

...and syndicated with experts across Government

EPU ECONOMIC PLANNING UNIT PRIME MINISTER'S DEPARTMENT, MALAYSIA

MOF

Jabatan Perangkaan MALAYSIA

[1] Earnings before Interest, Tax, Depreciation & Amortisation

SOURCE: Australian bureau for Statistics / National accounts; US Dept of Commerce; Bureau of economic analysis

To calculate the GNI impact, each NKEA lab identified initiatives that it classified as either entry point projects or business opportunities.

Entry point projects (EPPs) are projects that should generate big results fast. They are clearly defined initiatives that have potential investors already identified, a well-developed implementation plan and funding requirements clearly articulated. The EPPs are the initial wave only, and further projects will be identified and pursued over the coming years.

Business opportunities capture the potential of the sector to grow organically. These represent concrete opportunities. Some business opportunities will be triggered by the successful execution of EPPs. For example, the development of integrated resorts and hotels across Malaysia will create business opportunities for tour operators and land transportation businesses throughout Malaysia.

Many of the business opportunities highlighted will need further discussions to convert them into specific projects with potential investors identified, and a well developed implementation plan. Funding requirements will also need to be clearly detailed out. Beyond these identified opportunities, there will be many other ventures, large and small, that will emerge across the economy.

This will require collaboration with the relevant agencies such as MIDA and the respective ministries. Government will look into establishing a clear framework and process that faciltates and ensures efficient implementation and delivery of these opportunities.

The multiplier effect captures the economic impact of the development of EPPs on all the other economic sectors. As one sector grows, it will create demand for goods and services provided by others. For example, as the tourism sector develops it will create additional demand for financial services that will result in additional GNI. This additional GNI is captured through multiplier calculations.

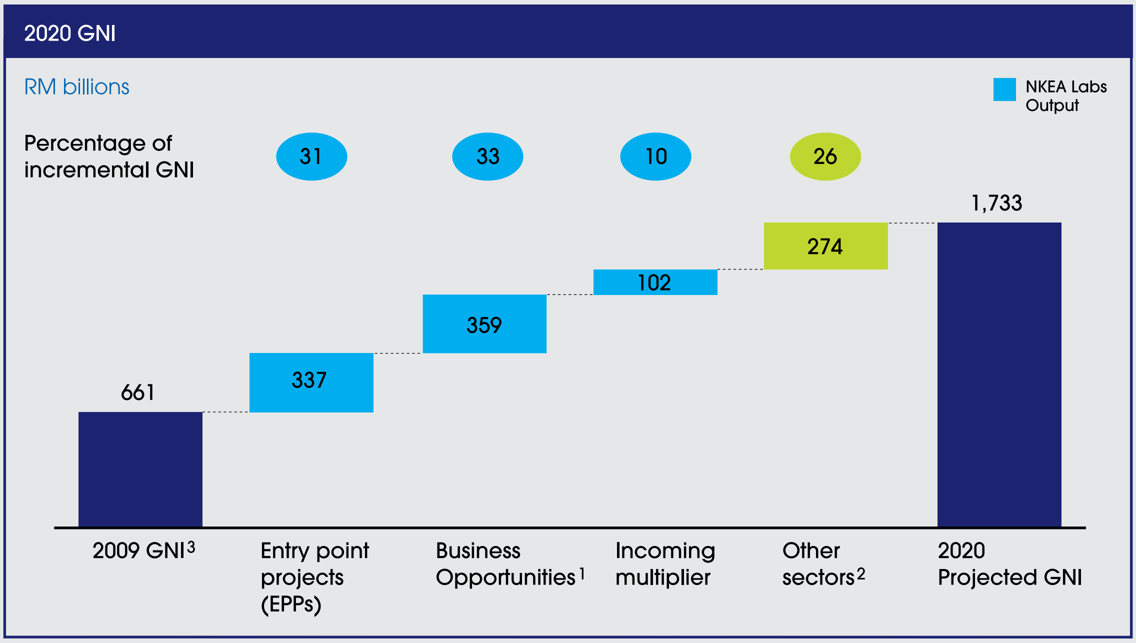
BECOMING A HIGH-INCOME ECONOMY

The projects and initiatives identified in the ETP will transform Malaysia into a high-income economy with a GNI that increases from RM660 billion in 2009 to just over RM1.7 trillion in the 2020. This means that GNI per capita will have risen from RM23,700 or USD6,700 in 2009 to beyond RM48,000 or USD15,000 in 2020. As a result, Malaysia is expected to reach the World Bank's definition of a high-income economy by 2020. To do this, Malaysia needs to achieve GDP growth of 6 percent per year, which is significantly higher than the 4.5 percent projected for the global economy by the IMF World Economic Outlook in April 2010.

As shown in *Exhibit 2-3*, the work of the ETP Labs suggests that EPPs can deliver up to 31 percent of the incremental GNI growth required and a further 10 percent through multiplier effects. Business opportunities could deliver an additional 33 percent. The remaining 26 percent of incremental growth is expected from other (non-NKEA) sectors.

Exhibit 2-3

The 11 Sector NKEA labs identified EPPs and business opportunities that could contribute incremental GNI impact of ~RM800 billion

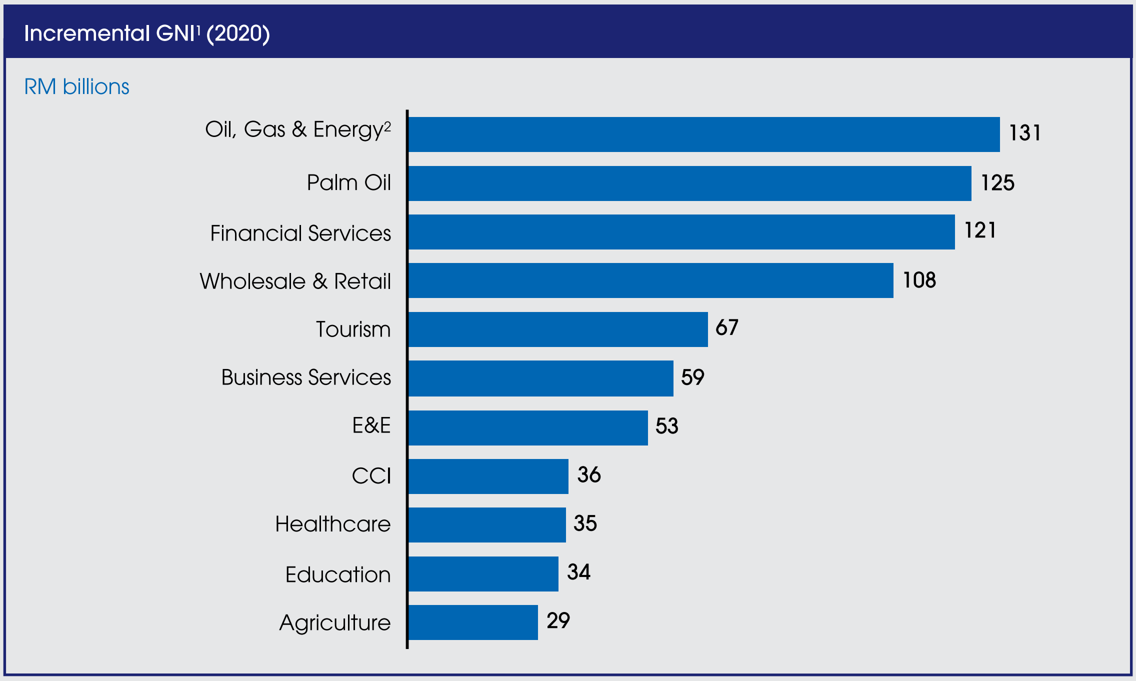


[1] Oil, Gas & Energy business opportunities includes RM32 billion (USD10 billion) oil price adjustment
[2] Excludes multiplier effect and assumes growth rate for other sectors as stated in the Tenth Malaysia Plan
[3] Assumes historical 2009 exchange rate of RM3.52 : USD1.0

Note that Greater KL/KV GNI is not included to avoid double counting as some portion of the income from NKEAs will be generated in the Greater KL/KV area. Of the remaining NKEAs, Oil, Gas and Energy is projected to contribute the largest amount of incremental GNI. As illustrated in *Exhibit 2-4*, four NKEAs (Oil, Gas and Energy, Financial Services, Palm Oil, and Wholesale and Retail) are projected to contribute 60 percent of the incremental growth amongst the 11 NKEA sectors.

Exhibit 2-4

Oil, Gas and Energy, Palm Oil, Financial Services, and Wholesale and Retail contribute ~60% of incremental GNI impact from NKEAs in 2020

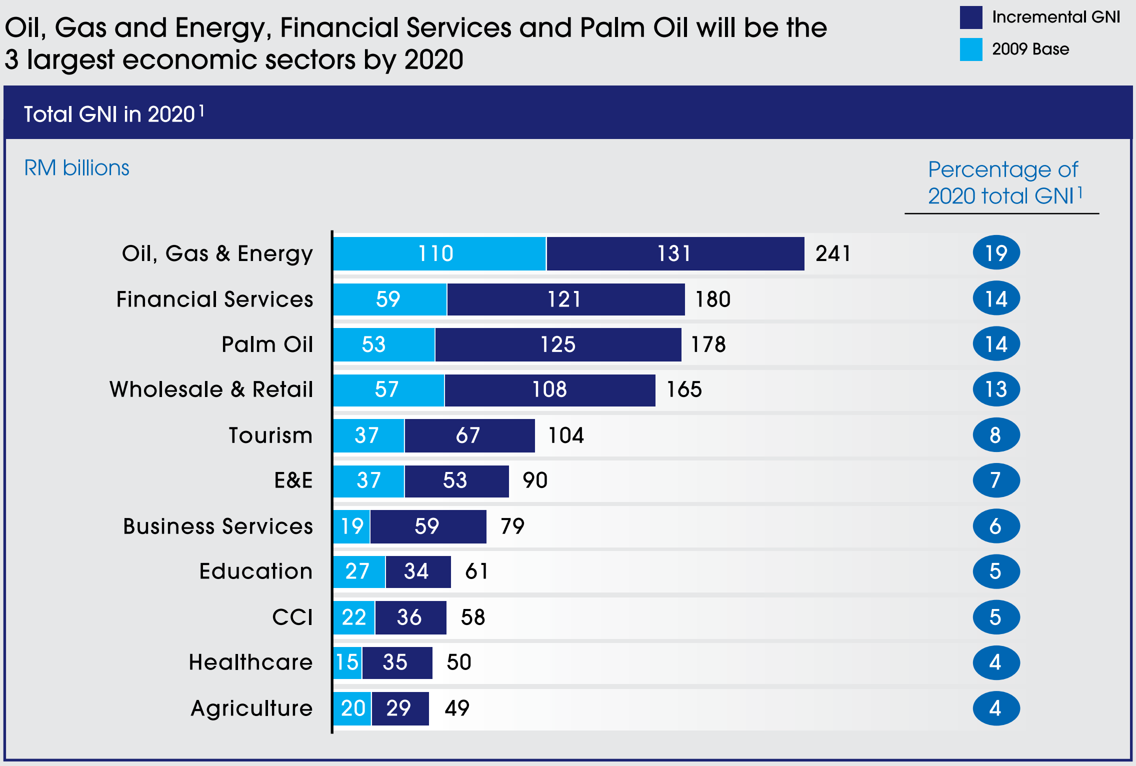


[1] Based on 11 sector NKEAs only, does not include other sectors
[2] Oil, Gas & Energy opportunities includes RM32 billion (USD10 billion) oil price adjustment

By 2020 oil, gas and energy will still be the largest sector in the Malaysia economy, but its share of the economy will have fallen due to strong growth in sectors such as financial services and palm oil. The wholesale and retail sector will also have grown considerably to become the fourth largest sector in the economy, as shown in *Exhibit 2-5*.

Exhibit 2-5

Oil, Gas and Energy, Financial Services and Palm Oil will be the 3 largest economic sectors by 2020



[1] Based on 11 sector NKEAs only, does not include other sectors

Growth Driven by Innovation and Reform

This growth will be driven by strategies and reforms that are market-friendly, centred on innovation and increasing value-add, focused on raising quality, standards and productivity and concentrated on areas where Malaysia has specific strengths.

Many of the planned initiatives are centred around market liberalisation and an intensification of competition. These factors will be especially important in attracting multi-national companies to Kuala Lumpur, in developing a regional financial footprint and in stimulating growth in Islamic financial services. The liberalisation of gas prices and reduction of subsidies will also sharpen market disciplines.

Economic growth will be spurred by innovation and a shift to higher value-added activities. The shift to food products in the Palm Oil NKEA means Malaysia will compete in higher-margin downstream markets. In the Healthcare NKEA, the development of clinical research and the expansion of contract manufacturing in medical devices will strengthen Malaysia's position in areas of global growth.

There will be a much greater focus on quality and on improving standards. The quality of skills training will be improved through industry-led bodies that will set standards, issue guidelines on content and harmonise the skills-training curriculum across sectors.

Labour productivity will increase significantly. For example, the roll-out of new harvesting techniques for palm oil will increase labour productivity in some holdings; Program TUKAR will see the development of a shared distribution centre for smaller retail outlets that will significantly increase efficiency and productivity; and land-sharing agreements will enable rice farmers to benefit from commercial-scale production.

Within the NKEAs, growth will be concentrated in sub-sectors where Malaysia has sustainable competitive advantage. Amongst others, in Financial Services, the key growth area is in Islamic financial services where Malaysia has a distinctive track record. In Oil, Gas and Energy, Malaysia is especially well-positioned to develop a regional oil field services hub because of the captive domestic oil and gas industry as well as our proximity to oil fields in the region.

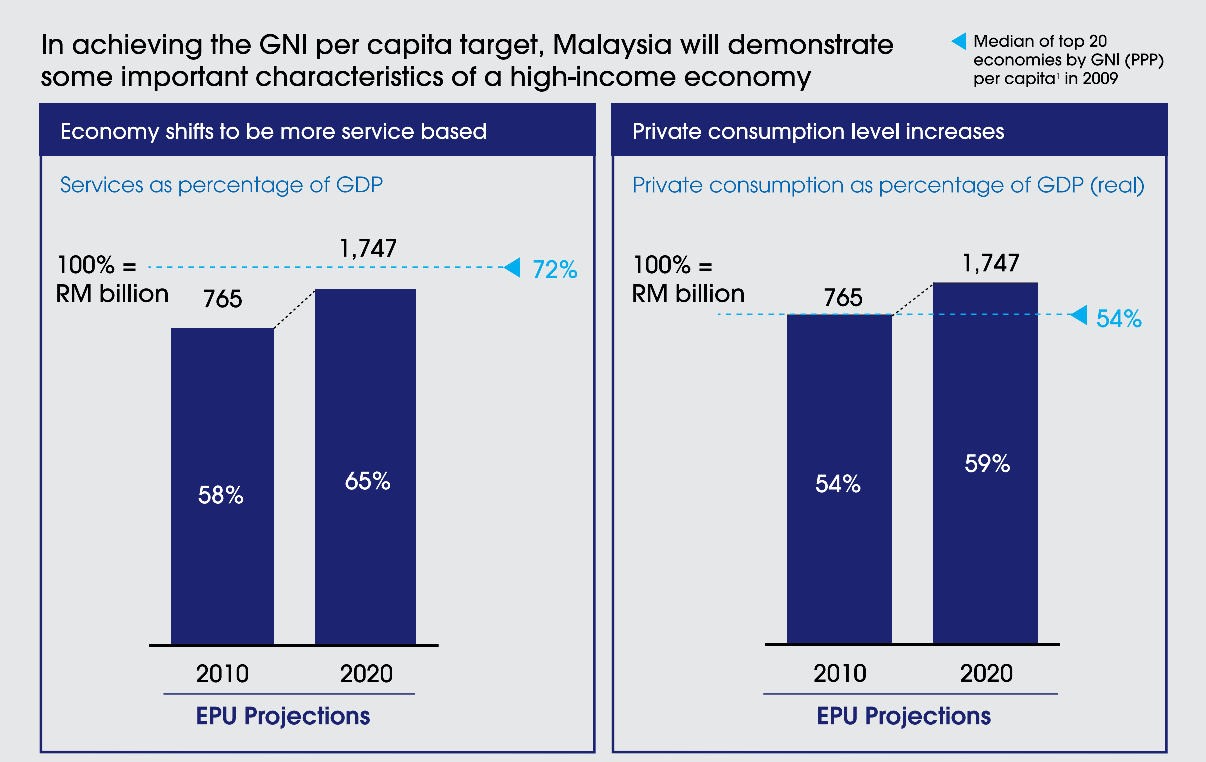
Characteristics of a High-income Economy

By 2020 Malaysia will not only have the GNI per capita of a high-income economy, it will also share a number of key characteristics. To begin with, the structure of the Malaysian economy will have changed significantly as can be seen in *Exhibit 2-6*.

- Services will account for a much greater share of the economy. By 2020, services will account for 65 percent of GDP, up from 58 percent in 2010. This growth will be concentrated in the Financial Services, Wholesale and Retail, Business Services, Tourism, Healthcare and Education NKEAs. As an example, in the Healthcare NKEA, annual growth of 10 percent is targetted in areas including health travel, specialist care centres and assisted living; and

- Domestic consumption will be a key driver of growth. Domestic consumption will account for 59 percent of GDP by 2020, compared to 54 percent in 2010. This will be partly a result of growth in sectors including wholesale and retail, financial services and healthcare services as well as growing urbanisation. This is especially important because it means that Malaysia will reduce its reliance on exports as a driver of demand. This growth in domestic demand would bring Malaysia in line with developed economies like Taiwan and New Zealand.

Exhibit 2-6



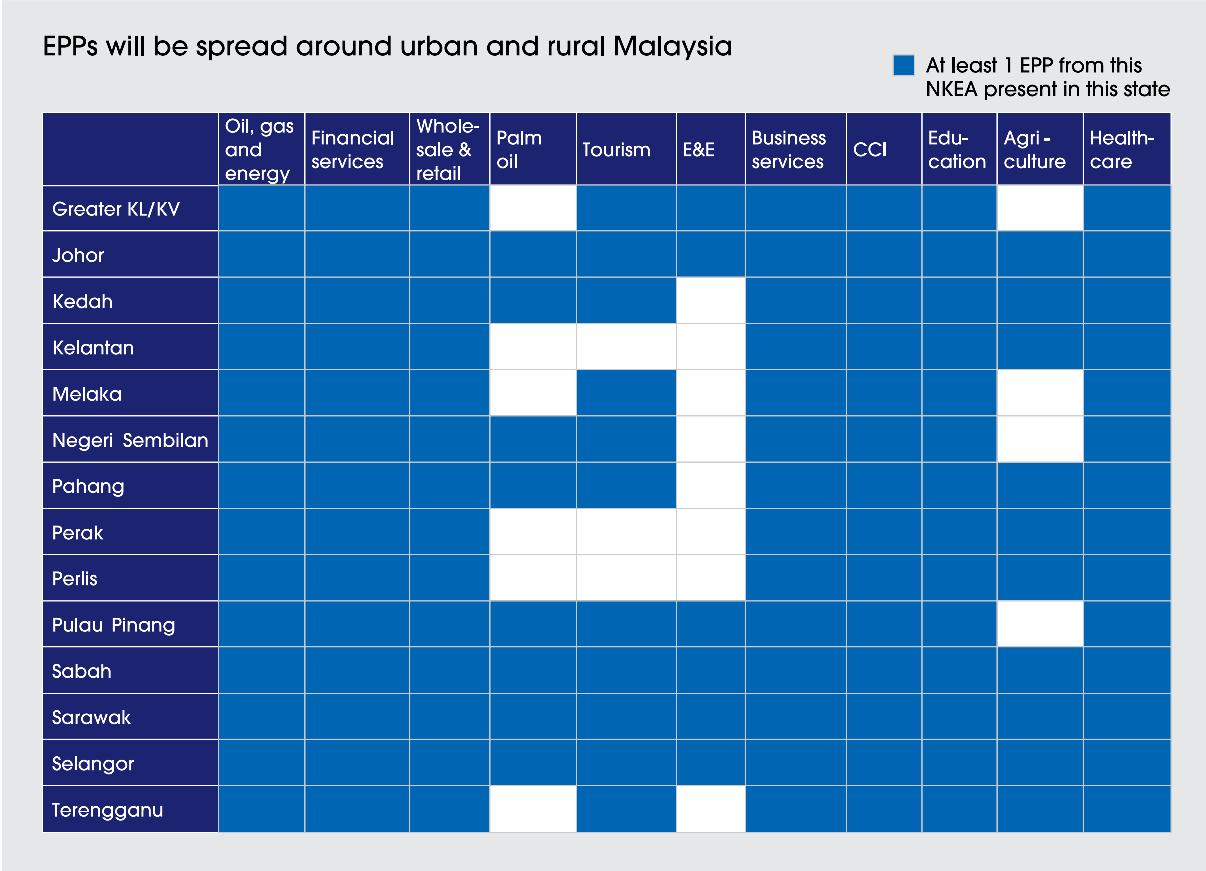
[1] Selected based on World Bank ranking (2009): Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, Norway, Singapore, Spain, Sweden, UK, USA

As well as a change in structure, Malaysia's economy will become more balanced and less dependent on resource-intensive industries. In particular, the petroleum industry's share of GDP will fall from 21 percent in the year 2008 to 14 percent in 2020. A more balanced and diversified economy should help ensure that growth will be sustainable over the long term.

As a result of the EPPs and the NKEAs, Malaysia will also become a more urbanised country. We estimated that the share of the population living in urban areas will grow from 64 percent to 70 percent and much of this growth will be concentrated in Greater Kuala Lumpur/Klang Valley. This will provide many new job opportunities for Malaysians, and the expectation is that some Malaysians from urban and rural areas will migrate in order to participate in these opportunities.

While Greater Kuala Lumpur/Klang Valley will be a primary engine of economic growth, there will be growth opportunities right across Malaysia. These include the development of the solar industry in Sarawak, the development of a global biodiversity hub to attract more tourists to Sabah and the commercialisation of paddy farming and improvements in yields within palm oil. The state-by-state coverage of the proposed EPPs is laid out in *Exhibit 2-7*.

Exhibit 2-7



By 2020 Malaysia will also have grown a number of new national and regional champions. These companies will drive long-term growth in areas including financial services, business services and healthcare services.

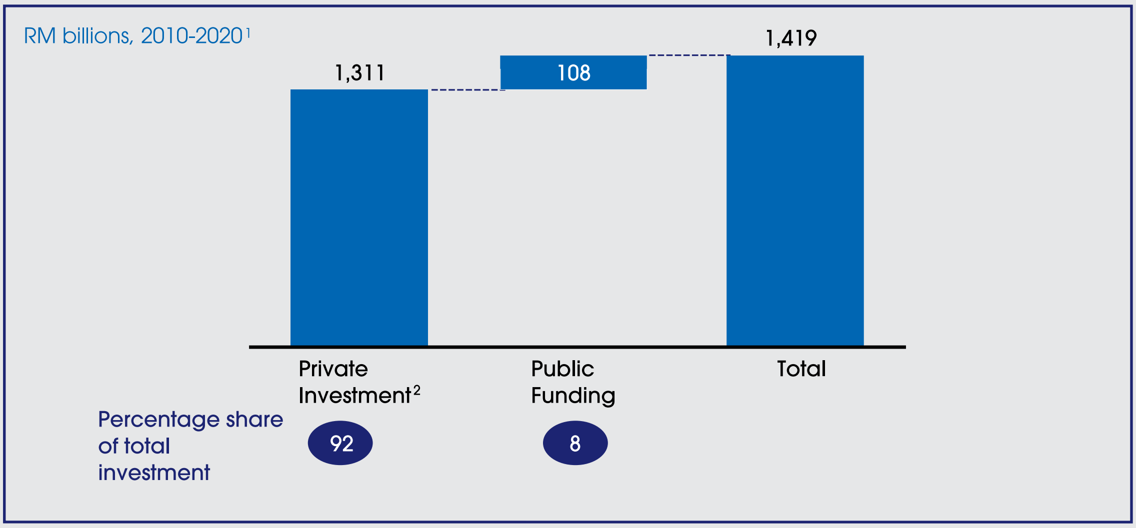
Finally, small- and medium-sized enterprises (SMEs) will play a more significant role across the economy. For instance, in education, agriculture, electronics and electrical and palm oil sectors, SME participation will be actively encouraged through the provision of financial support and better access to research and technologies as well as from improvements to infrastructure.

PRIVATE INVESTMENT-LED GROWTH

Investment in the Malaysian economy to 2020 will be driven and led by the private sector. Private investment will account for 92 percent of overall investment in the NKEAs and public funding for only 8 percent as shown in *Exhibit 2-8*. This is a significant increase from the 37 percent share of private investment in 2008 and is consistent with the targetted growth rate in private investment of 12.8 percent in the Tenth Malaysia Plan (2011 to 2015) as well as the longer-term target of 12.2 percent growth from 2011 to 2020. This 92 percent share fits with the new role for Government as a facilitator of economic growth as set out in the Tenth Malaysia Plan.

Exhibit 2-8

Private investment makes up ~92% of total required to deliver NKEAs



[1] Excludes funding needs for Greater KL/KV business opportunity
[2] Private investment figure stated here combines GLCs and other private investment

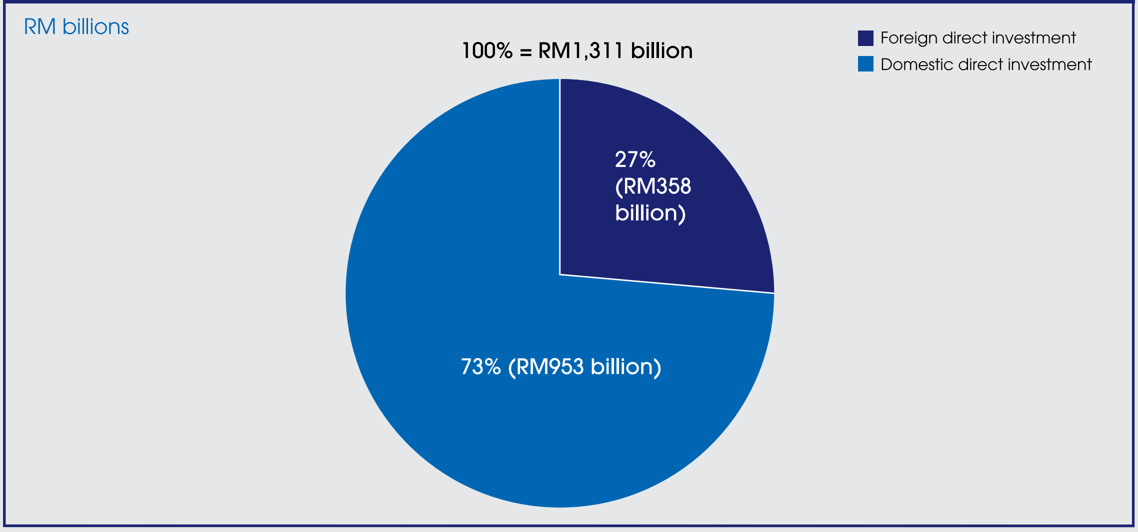
Private investment-led growth means that the economy will be less dependent on Government funding, which is constrained by the need to manage the nation's fiscal position. It also means that investment will be subjected to market disciplines and targetted at areas where private investors believe there is the greatest chance of success. Government funding will be targetted at initiatives that will maximise GNI impact for every ringgit of public money spent.

Of the total private investment required, domestic direct investment will account for approximately 73 percent, and about 27 percent will be sourced from foreign direct investment as shown in *Exhibit 2-9*.

Exhibit 2-9

NKEAs need about RM1.3 trillion private investment over 2010-2020, of which 73% is expected to be domestic direct investment

Split of foreign and domestic direct investment from NKEAs,[1] 2010-20

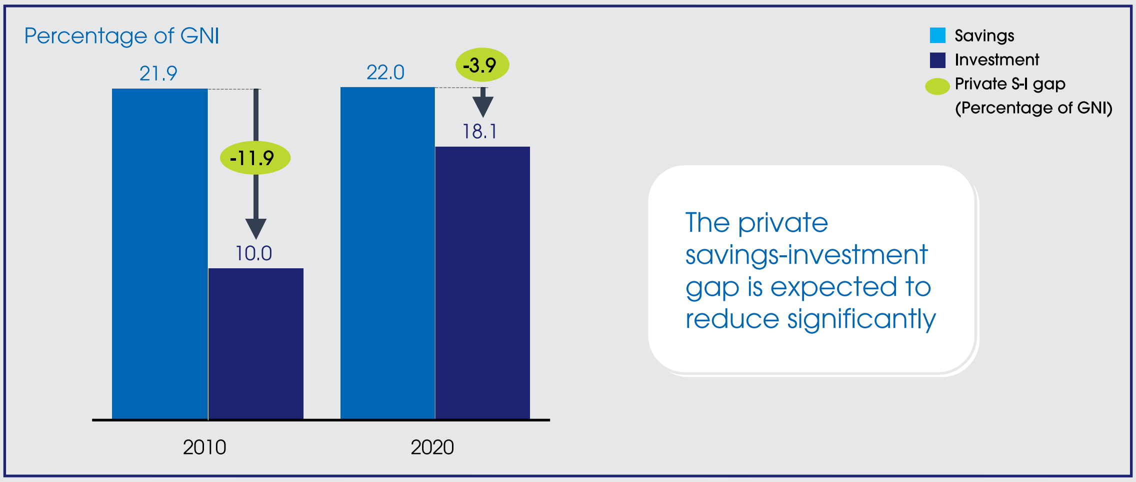


1 Excludes Greater KL/KV business opportunity
2 For business opportunities, the FDI:DDI was assumed to be the same as that for the EPPs

As highlighted in *Exhibit 2-10*, Malaysia has the capacity to generate this high level of domestic investment because of a significant gap between its rates of savings and investment. Malaysia's savings rate is a very healthy 22 percent of GDP, but the investment rate is only 10 percent, resulting in a gap of 12 percent. The savings rate is projected to stay relatively constant, so there is room for the investment rate to rise significantly. The EPU projects that the domestic investment rate could reach 18 percent by 2020, which would deliver the total investment needed for the ETP.

Exhibit 2-10

Analysis of domestic private savings-investment gap shows there is enough capacity to generate the required domestic invesment

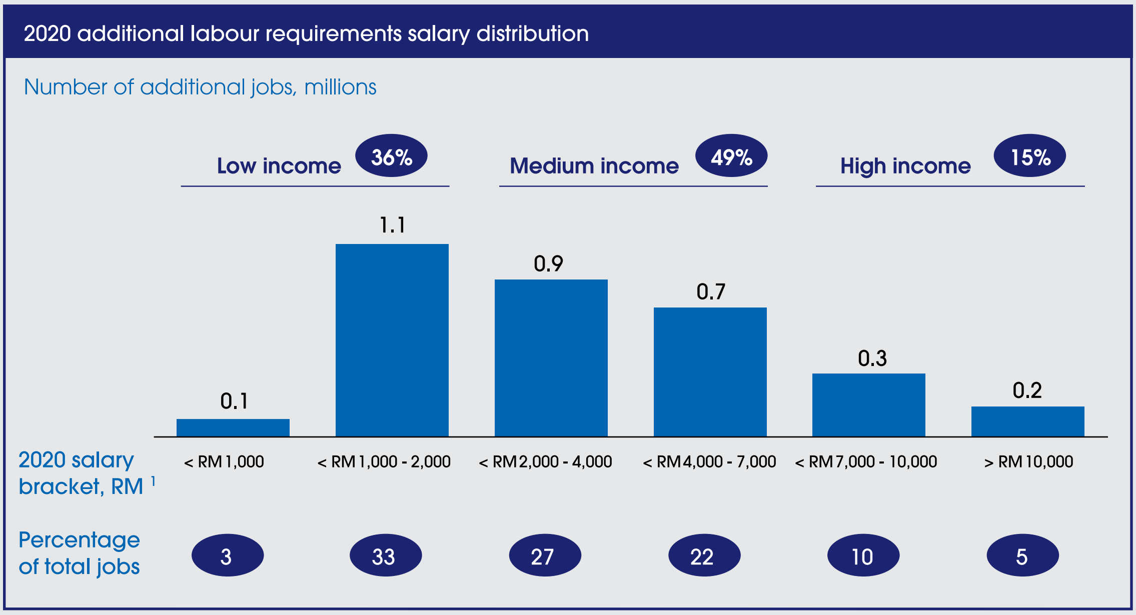


CREATING MIDDLE- AND HIGH-INCOME JOBS

The initiatives and reforms of the ETP are designed to deliver growth that will benefit many Malaysians. In particular, an incremental 3.3 million jobs are projected to be created from the initiatives developed in the NKEA labs. Over 60 percent of the new jobs will have middle or high salaries as shown in *Exhibit 2-11*.

Exhibit 2-11

NKEAs will create additional 3.3 million jobs with a high proportion being medium- and high-income salary

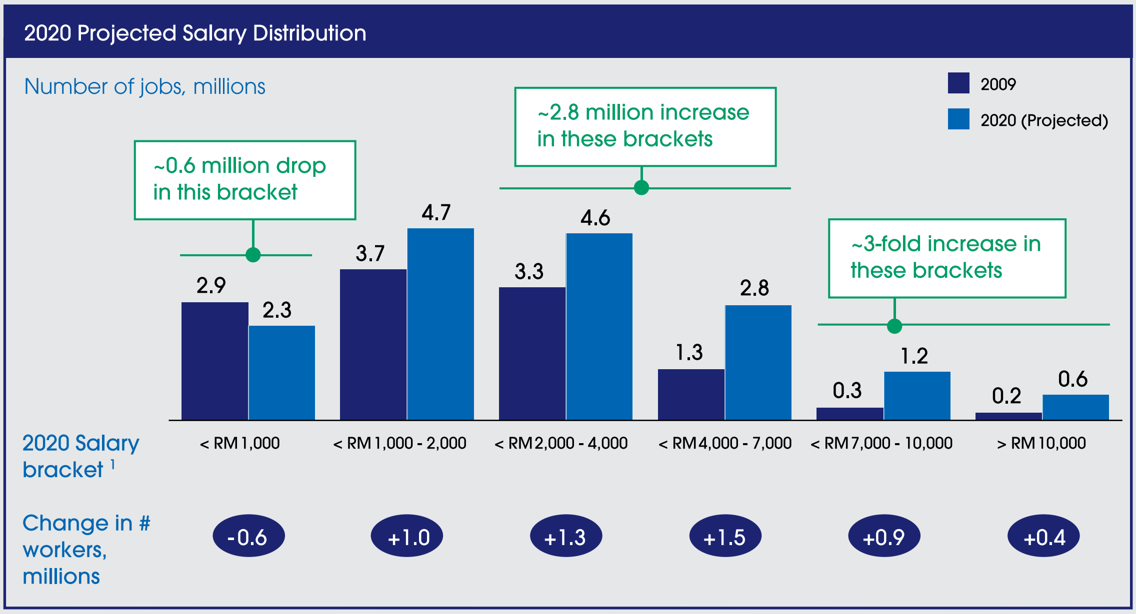


[1] Salary brackets reflects 2020 nominal RM

An overall impact of the ETP will be significant growth in the job market, a shift towards higher paid jobs, a wide variety of new opportunities for Malaysians and a strengthening of the skills base. In 2009 approximately 57 percent of employed workers were low-income earners. Due to the combined effect of new jobs created by the NKEAs and growth in real wages some 600,000 workers will move out of the lowest income bracket as shown in *Exhibit 2-12*. There will be a 2.8 million increase in the number of people on middle-income salaries and a 3-fold increase in the number of high-income jobs. These new job opportunities will attract high-skilled foreign workers as well as talented Malaysians back to Malaysia. The Greater Kuala Lumpur/Klang Valley NKEA aims to attract 150,000 high-skilled Malaysian diaspora to return to help meet this demand.

Exhibit 2-12

NKEAs will help reduce proportion of low-income workers and increase proportion of middle- to high-income workers

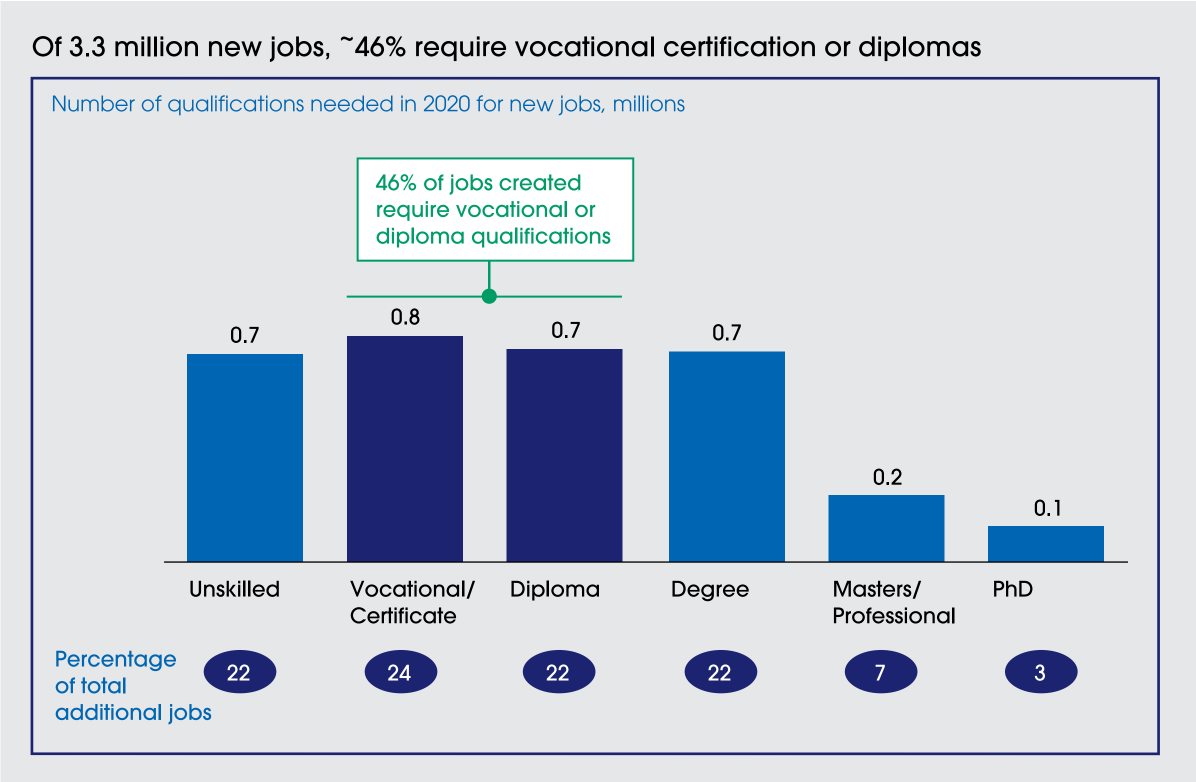


[1] Salary brackets reflects 2020 nominal RM, 2009 salary brackets are adjusted to match this

Assumptions: *Workers uniformly distributed in each salary bracket; all workers' wages grow at EPU projected rate for 2010 -2020 of 3.6%; non-NKEA sector real labour productivity grows at EPU projected rate for 2010-2020 of 3.6%, non-NKEA sector has same distribution as national average*

In the years towards 2020, there will be a better fit between the skills demanded in the labour market and the skills developed. What Malaysia needs most of all is a much larger pool of well-trained and competent individuals with the right vocational and technical training (46 percent of additional jobs) as shown in *Exhibit 2-13*. Investment in education in Malaysia is designed to deliver increased quantity and quality of these vocational and technical qualifications.

Exhibit 2-13



MANAGING RISK

The ETP is a highly ambitious programme, and there are of course risks to implementation. The most significant risk is that the required growth in private sector investment of 12.2 percent per annum is not achieved. Malaysia is starting from a position of relatively low growth in private investment (both domestic and foreign), so this is a real challenge. Since 92 percent of the capital required for the ETP is projected to come from private investment, if this growth in investment does not materialise, the risk is that the economy will not grow in line with the Government's target.

The Government understands the importance of securing this private investment and is taking a number of actions to mitigate this risk. Most importantly, the Government recognises that it has a new role to play in facilitating growth in what is a private sector-led programme of transformation. The ideas and investment opportunities developed in the labs came from the private sector. The reforms required were also identified by the private sector. The Government will be absolutely focused on implementing these reforms so as to stimulate private investment. Government funding of development projects and incentives will also be targetted at those projects that bring with them significant private investment and that will drive GNI growth. In addition, the corporatisation of Malaysian Industrial Development Authority (MIDA) will help enhance Malaysia's ability to attract foreign investment and stimulate domestic investment.

There are other risks to the programme. The global economy is unpredictable and may not grow as quickly as the 4.5 percent projected through the 10 years. There is a limit to what can be done to mitigate this risk. However, the fact that the ETP aims to balance growth across exports and domestic consumption means that Malaysia will be somewhat less exposed to changes in global economic activity than would otherwise be the case.

There is also a potential risk that the delivery of the initiatives will be delayed. This is being tackled head-on by the Government. The programme is based on very concrete and actionable initiatives in each of the 12 NKEAs. Specific projects have been identified to drive GNI growth along with the market-driven reforms needed to attract investment and facilitate growth. These are all based on rigorous analysis and are driven by the private sector. There will be clear accountabilities across Government for delivering the reforms and initiatives required to drive growth, and a new ETP Unit has been established under PEMANDU that will support the ministries, government agencies and the private sector in the delivery of the ETP. The Government will report regularly and transparently on the progress of implementation.

An Evolving Programme

It is important to reiterate that the ETP will evolve. The initiatives defined in the labs are not intended to be a definitive blueprint of economic activity in Malaysia for the next 10 years – they merely serve as a starting point. That is why the term “entry point project” is used. Implementation will be market-led, and markets are dynamic and fast-changing. A number of projects will evolve, some will change quite radically and some will be discontinued. Many new initiatives and activities that have not even been thought of yet will emerge as reforms take hold, new opportunities emerge and markets develop.

However we will not compromise on the Government’s goal of becoming a high-income nation by 2020, nor will we compromise on ensuring the Government plays its part in facilitating and incentivising private sector-led investment and development and in implementing the reforms required.

CONCLUSION

The ETP will transform the Malaysian economy and deliver the economic growth required to become a high-income country: achieving GNI per capita of at least RM48,000 or USD15,000 by 2020. The NKEAs will deliver 74 percent of this growth through a programme of initiatives and reforms that are market-driven and focused on areas where Malaysia has competitive advantage. The transformation will be led by the private sector, and over 90 percent of the funding required will come from private investment. Through the ETP over 3 million new jobs will be created, the majority of which will be middle-income or high-income jobs. This will lead to a significant overall increase in income levels. The Government’s role is to facilitate this economic growth by delivering reforms, incentivising investment and ensuring public funding is targetted where it will have most impact.

chapter 3
Enablers

Chapter 3: Enabling the Success of the ETP

Much of the gross national income (GNI) impact of the National Key Economic Areas (NKEAs) will be achieved through private sector investment and action. However, delivery of many of the entry point projects (EPPs) requires government action. These government actions include policy and regulatory change and funding in areas such as education or infrastructure. Only about 15 percent of the EPPs do not request specific government funding or policy support.

About 70 percent of the required government enabling actions are specific to an individual EPP or across an NKEA and are described in detail in the NKEA chapters of this Roadmap. In addition, there are a series of required government actions that are common across multiple EPPs and across multiple NKEAs. It will be more effective and efficient to coordinate these cross-cutting actions than solve them on an individual basis as they arise.

In addition, these enabling actions will support GNI growth resulting from the business opportunities in the NKEAs as well as in the non-NKEA sectors. This is important because the business opportunities in the NKEAs comprise 33 percent of the incremental GNI required to achieve the 2020 GNI target, while the non-NKEA sectors account for an additional 26 percent of incremental GNI. Without these broader policy enablers, it is unlikely that the GNI growth required will be delivered.

Four categories of enablers are discussed below. The first is promoting private investment - attracting and supporting domestic and foreign investment as well as developing a clear framework for delivering fiscal support. The second is growing human capital - attracting foreign talent to Malaysia to support growth in areas such as Greater Kuala Lumpur/Klang Valley, streamlining immigration rules and procedures and investing systematically in vocational education for Malaysians. The third is improving the business environment - reducing compliance costs, deregulating and improving the efficiency of government operations in order to generate a substantial increase in private investment. The fourth is investing in infrastructure, such as broadband and logistics.

PROMOTING PRIVATE INVESTMENT

Private investment is at the core of the Economic Transformation Programme (ETP). In many cases, delivering this investment will require some support from the Government. Of the 131 EPPs, 59 make a formal request for government assistance to promote private investment. These requests fall into two broad categories: more aggressive investment promotion to obtain both domestic and foreign investment and various forms of fiscal incentives.

Investor Attraction

A total of RM1.3 trillion in additional investment is required from the private sector to fund the EPPs and business opportunities identified in the ETP. About 73 percent of this capital or RM953 billion is expected to come from domestic sources. As noted in Chapter 2, Malaysia has a high domestic savings rate, indicating that this capital is available. The priority is to ensure that this domestic-capital is attracted to the productive opportunities identified in the NKEAs.

Given the importance of domestic investment to the delivery of the ETP targets, we will expand the remit of the Malaysian Industrial Development Authority (MIDA) to include attracting domestic investment. Specifically, MIDA will reach out to domestic investors, both broadly through roadshows and mass communications as well as through targetted identification and negotiation.

MIDA will also assist domestic investors in their negotiations with government agencies on incentives, regulations and navigating administrative procedures. In addition, MIDA will co-ordinate and consolidate the various efforts of the five growth corridors – Iskandar Malaysia, Northern Corridor Economic Region, East Coast Economic Region, Sarawak Corridor of Renewable Energy and Sabah Development Corridor. In addition to these domestic sources of capital, 27 percent of the capital required to finance the EPPs is estimated to be sourced in the form of foreign direct investment (FDI), amounting to a total of RM358 billion over the 10 years to 2020. Some of the NKEAs, particularly Greater Kuala Lumpur/Klang Valley, Electronics and Electrical (E&E) and Oil, Gas and Energy, rely on attracting FDI.

Malaysia's FDI performance has lagged many countries in the region over the past decade. In 2009, Malaysia received just RM4.9 billion of FDI, a reduction of 81 percent on the 2008 inflow. Over the same period, FDI inflows into the entire Southeast Asian region reduced by just 22 percent, and increased in the Philippines (26 percent) and Singapore (54 percent).

To attract both the substantial amounts of domestic and foreign investment required, Malaysia will fundamentally strengthen its investment attraction activities. This began with the corporatisation and empowerment of MIDA announced in the Tenth Malaysia Plan and the expansion of its scope to cover domestic investment. The specific requests from the various EPPs will sharpen the focus of these reform efforts. There are two categories of investor attraction: targetted outreach to potential investors and partners as well as broader-marketing campaigns (*Table 3-1*).

Targetted outreach activities include identifying and negotiating with specific investors to participate in identified projects. For instance, we will target foreign investors to participate in five oleo hubs in the Palm Oil NKEA and encourage existing investors to bring in advanced packaging lines in the E&E NKEA. MIDA will be responsible for working with the respective industry to lead these investor-outreach activities and will act to achieve the key milestones for the EPPs.

In addition to these targetted activities, MIDA will also undertake broader marketing campaigns in relevant NKEAs in order to promote Malaysia as an attractive investment location. An example is organising international roadshows to position Malaysia as a world-class data centre hub.

Table 3-1

Description	Enablers required from EPPs	Lead agency	GNI impact (RM billion)
Targetted outreach for partners	11 EPPs, including • E&E: Encourage assembly and test players already in Malaysia to bring in advanced packaging lines; outreach to IC design firms and substrate manufacturers • Palm Oil: Attract targetted foreign investors to set up their plants in five oleo hubs • Tourism: Attract entertainment outlet operators to invest in gazetted entertainment zones	Malaysian Industrial Development Authority	20.3
Broader marketing campaigns	5 EPPs, including • Business Services: Hold roadshows to position Malaysia as a world-class data centre hub • E&E: Promote Sarawak as a site for silicon producers; promote Northern Corridor and Klang Valley as sites for wafer and cell producers • Healthcare: Fund pharmaceutical trade shows to promote made-in-Malaysia generics exports		34.9
Total			**55.2**

Fiscal Incentives

Many of the EPPs require government financial support for either capital expenditure or operating expenditure. Broadly, this Government support can come in the form of general tax credits and holidays, tax incentives that are directly aimed at increasing specific investment and other forms of non-tax fiscal support such as grants or soft loans. *Table 3-2* describes the types of fiscal incentives that have been requested. These incentives will only be disbursed upon demonstration of commitment from the private sector. The Agriculture NKEA requests tax concessions to help attract foreign partners to invest in an integrated food park. Investment tax allowances have also been requested to encourage greater levels of private investment in a range of sectors, such as advanced packaging plants in the E&E sector.

The non-tax incentives requested by the EPPs, consists mainly of grants and loans from various government agencies. Although these incentives have been identified by 22 EPPs, the amounts requested are relatively small (e.g. RM19 million grant to build early childcare and education training centres). Many of the loans or grants requested are from funds that have already been set up by the Government for these specific purposes, such as the Green Technology Fund and working capital loans from SME Corporation.

Many of the incentives are specific to sectors. Rather than a blanket change to the tax code, the Government will empower MIDA and other agencies as appropriate, to negotiate requested incentives with investors on a case-by-case basis. However, the Ministry of Finance will establish a common approach and framework to provide the basis for conducting these negotiations. This will mean that the provisions for these incentives do not have to be designed from scratch each time. The Government will also review these requests to ensure that only those requests with the highest potential GNI impact receive financial support from the public sector.

Table 3-2

Description	Enablers required from EPPs	Lead agency	GNI impact (RM billion)
Tax credits and holidays	7 EPPs, including • E&E: Exempt pioneering silicon producers and wafer and cell producers from tax • Healthcare: Provide tax breaks to companies qualifying for Health Metropolis status • Agriculture: Give tax concession to foreign partners that set up in an integrated food park	Ministry of Finance	22.9
Investment tax allowance	4 EPPs, including • Palm Oil: Provide tax incentive for acquisition of foreign oleo derivatives and food companies • Tourism: Provide investment tax allowance (ITA) for 4-star and 5-star hotel construction, upgrades and refurbishments • E&E: Provide incentive to scale up advanced packaging plants		17.5
Non-tax incentives (e.g. grants and loans)	22 EPPs, including • Education: Fund the building of new early childcare and education (ECCE) training centres or the expansion of existing ones • E&E: Give R&D and training grants for the expansion of LED companies • Agriculture: Set up a low-interest financing scheme for rural entrepreneurs with Agrobank	Economic Planning Unit and Ministry of Finance	60.6
Total			**101.1**

GROWING HUMAN CAPITAL

Human capital is critical to the success of the ETP. Significant improvements are required in the size and nature of the talent pool in Malaysia in order to deliver the required GNI growth in the NKEAs. A third of the EPPs, representing RM120 billion of GNI contribution, require direct investments in human capital. Other EPPs will also require human capital development albeit indirectly. Examples of human capital required include aquaculturists (Agriculture), accountants (Business Services), wealth managers and financial products specialists (Financial Services) and nurses (Healthcare). Importantly there will also be a significant requirement for leadership talent for managerial and administrative positions across all NKEAs.

The 3.3 million jobs expected to be created in the NKEA sectors are required across the range of qualifications, from unskilled labour to vocational certificates and diploma holders to advanced professional degree graduates. A review of skills requirements in the NKEAs show that, on current trajectory, there could be up to 1.0 million job vacancies in 2020 that will be difficult to fill. These range from relatively low-skilled sales assistants and hotel housekeeping staff to high-skilled positions requiring advanced degrees, such as engineers, lecturers, financial analysts and general medical practitioners.

To address the human capital needs of the EPPs and business opportunities, the Government will take action to build the capabilities of existing talent in Malaysia, attract foreign talent to work in Malaysia and ease immigration rules to facilitate the entry of talent. Building the pool of human capital will not only benefit the EPPs and business opportunities, but also provide a ready pool of technical, critical thinking and leadership skills needed to run future business opportunities as well as projects in non-NKEAs.

Domestic Capability-Building

The skills necessary to meet the demands of some EPPs need to be developed domestically, either through up-skilling existing workers, or through training programmes at universities and other educational or training institutes. As part of the Tenth Malaysia Plan, the Government has, in addition to systematically upgrading tertiary institutions, committed to significantly increase funding and focus on upgrading technical and vocational training.

The companies driving these EPPs have asked the Government to partner with them in providing training or to incorporate specific areas of study into programmes at public universities. An example of such requests is establishing the Centre for Engineering and Excellence (CEE) for the private sector and academia to interact on postgraduate, postdoctoral programmes as well as to work on research-based projects, based on demand from the private sector (such as the E&E NKEA). Others include the introduction of more data centre-focussed courses at public universities, including topics like networks, server virtualisation and green IT (Business Services) and joint training to increase the number of certification auditors in the integrated aquaculture industry (Agriculture). *Table 3-3* gives an overview of the required actions.

Another important requirement for the success of the ETP is the development of senior management and leadership talent for the NKEAs. In this regard, the Talent Corporation (discussed below) will be involved in building the capabilities of top talent most needed for the NKEAs, such as the pivotal leaders and specialised talent to propel the success of the EPPs.

A coordinated approach to deliver the right level of training and education for these priority areas will be delivered by the Government. Talent Corporation, the Ministry of Higher Education and the Ministry of Human Resources will coordinate with the relevant NKEA Lead Ministries to assess skills gaps and to devise and deliver appropriate courses. Many of these skill gaps will be in technical and vocational fields such as hospitality management and nursing. The Government is committed to supporting technical education and vocational training (TEVT) through harmonising accreditation across ministries, industries and private skills-training providers.

Table 3-3

Description	Enablers required from EPPs	Lead agency	GNI impact (RM billion)
Training courses	29 EPPs, including • Healthcare (in coordination with Ministry of Health): Train more radiologists and sub-specialists in various radiology and pathology fields; partner with private healthcare providers to participate in allied health training programmes; establish centres of excellence for innovative care, research and specialised education • Agriculture (in coordination with Ministry of Agriculture): Upgrade knowledge on standards for integrated aquaculture (IZAQ); issue guidance and procedures on seaweed farming operations • Business Services: Train 600 engineers to grow large pure play engineering services firms; run green technology seminars for financial institutions to help them fund and partner green technology start-ups • E&E (in coordination with Ministry of Science, Technology and Innovation): Train talent in IC design, semiconductors, wafer and cell manufacturing; co-fund MSc and PhD programmes with private companies; introduce courses on soft skills; expand fast-track programmes for new industry hires • Tourism (in coordination with Ministry of Tourism): Set up training centres to produce local experts in the spa industry; train tourist police in foreign languages • Financial Services (in cooperation with Bank Negara Malaysia, Securities Commission): Provide training in specialised areas like capital-market risk management, product development, specialised trading, wealth management and asset management	Ministry of Higher Education and Ministry of Human Resource	61.4
University courses and modules	15 EPPs, including • Agriculture (in coordination with Ministry of Agriculture): Restructure existing agricultural courses to ensure sufficient emphasis on core fields such as animal nutrition, animal husbandry, animal breeding, agronomy and agriculture information and communications technology; increase places for newer fields such as aquaculture • Business Services: Invite foreign university to set up local campus to teach aviation engineering (maintenance, repair and overhaul); introduce data centre courses • Healthcare (in coordination with Ministry of Health): Create links between Malaysian Masters programmes and international colleges for radiology and pathology • Palm Oil (in coordination with Ministry of Plantation Industries and Commodities): Increase the number of courses in chemical engineering, bio-engineering, food science, food technology, nutrition and health, product research and development and product design	Ministry of Higher Education	17.4
Total			**78.8**

Overseas Talent

The Government will attract Malaysians currently living and working in other countries to return to Malaysia as well as non-Malaysians to build their careers in Malaysia. There is significant potential in both of these areas. It is estimated that in 2009 there were over 700,000 Malaysians living abroad, with up to two-thirds of them, professionals.

EPPs from many NKEAs require talent from overseas (*Table 3-4* gives an overview), e.g. Greater Kuala Lumpur/Klang Valley, Education and Financial Services. While we recognise that many overseas Malaysians and non-Malaysians will choose to come to Malaysia for the opportunities created by the ETP, a substantial effort by the Government will be necessary to attract the sheer quantity of talent required. The Tenth Malaysia Plan reports that the number of skilled expatriates in Malaysia more than halved between 2000 and 2007, from 82,500 to 38,100.

The actions that will be taken include:

- Design and implement attractive expatriate packages (e.g. personal income tax incentives) for both overseas Malaysians and skilled non-Malaysians;

- Design and implement marketing efforts (e.g. roadshows, targetted outreach); and

- Assist expatriates with their applications to work in Malaysia (e.g. visas, work permits).

The Talent Corporation will be established under the Prime Minister's Department to lead initiatives to attract, motivate and retain the top talent that the nation most critically needs. In addition to delivering top Malaysian talent to support the ETP, the Talent Corporation will also:

- Actively identify, engage and network with highly-qualified and talented members of the Malaysian diaspora. This will be through broad marketing efforts like roadshows and career fairs, but also through more targetted activities such as searching for and recruiting specific foreign talent;

- Coordinate with the Immigration Department and diplomatic missions to reach out to foreign talent, ranging from those with required expertise in the NKEAs to graduates of top universities worldwide with high potential; and

- Consolidate and enhance existing talent attraction programmes such as the Returning Expert (programme to encourage Malaysian citizens with expertise residing overseas to return to Malaysia) and Brain Gain (Ministry of Science, Technology and Innovation programme to attract talent pool of Malaysian diaspora and foreign researchers, scientist, engineers and technopreneurs).

The Economic Planning Unit is leading the establishment of the Talent Corporation, which is expected to be formed by January 2011.

Table 3-4

Description	Enablers required from EPPs	Lead agency	GNI impact (RM billion)
Targetted communications and outreach	5 EPPs, including • Financial Services: Maintain a national database to track Malaysian financial services experts abroad and notify them of opportunities • Business Services: Collect and analyse profiles of Malaysian professional diaspora; launch targetted communications, network and match job opportunities • CCI: Provide scholarships to foreign creative content producers and hire upon graduation • Palm Oil: Target top Malaysian food scientists and technologists, fast-moving consumer goods marketing specialists, industrial chemical engineers and bio-engineers that live abroad • Greater KL/KV: Track and engage with top 5,000 most interesting Malaysian diaspora individuals[1]	Talent Corporation	3.1
Broader marketing campaigns	5 EPPs, including • Business Services: Run campaigns to market Malaysia as a destination for professional talent; develop one-stop talent portal • Financial Services: Attract global Islamic finance experts		7.2
Total			**10.3**

Immigration Regulations

Malaysia's immigration laws have seen many positive changes in recent years, with regards to simplifying the entry of skilled foreign workers. However, the private sector – across many industries – continues to identify difficulties in bringing in foreign talent due to remaining restrictive immigration regulations. For example, there are no provisions that make it easy for high-performing foreign graduates of Malaysian universities to secure a job in Malaysia (e.g. automatic one-year visas). Malaysia risks losing these skilled workers to countries such as Singapore that have more flexible immigration policies.

The Government will act to simplify immigration procedures; for example, removing restrictions on middle- and high-income expatriates to allow them to work in services sectors, as well as further shortening application times and procedures. The government will develop and implement a set of criteria for the removal of restrictions on – or automatic approval of – visas and work permits.

1 This EPP will contribute to RM118 billion in GNI by 2020. However the GNI contribution from Greater KL/KV is not included to avoid double counting as some portion of the income from the other NKEAs will be generated in the Greater KL/KV area.

A revamp of selected immigration policies is also needed by some NKEAs to implement their EPPs. For example, for the Education NKEA to raise the number of foreign students entering Malaysia, the application process for foreign student passes needs to be accelerated and the ability for these students to work during term time to fulfil practical training requirements needs to be reviewed. Similarly for the medical tourism EPP within the Healthcare NKEA to succeed, express visa applications and extensions for health travellers and their companions need to be expedited. These will be negotiated on a case-by-case basis between the individual sector representatives, their respective NKEA lead ministries and the Ministry of Home Affairs. *Table 3-5* provides an overview of the actions needed.

Table 3-5

Description	Enablers required from EPPs	Lead agency	GNI impact (RM billion)
Simplify and speed up application processes	7 EPPs, including • Financial Services: Implement online immigration applications and processing • Oil, Gas and Energy: Implement short, fixed approval times for applications to obtain and renew work and residence permits • Healthcare: Shorten the time required by private hospitals to bring in foreign doctors, nurses and other health professionals • E&E: Reduce processing time (to less than one month for new applications and less than two weeks for renewals)	Ministry of Home Affairs	6.4
Remove restrictive immigration and right-to-work policy	9 EPPs, including • E&E: Provide automatic approval for foreign talent involved in knowledge work (e.g. engineers and designers) for solid state lighting companies • Business Services: Abolish restrictions on expatriates for key services subsectors; provide one-year working visa to foreign students with CGPA of 3.5 and above from local universities • Tourism: Allow foreign students studying hospitality or tourism-related courses to work up to 20 hours a week		5.6
Total			**12.0**

IMPROVING THE BUSINESS ENVIRONMENT

The general business environment in Malaysia is a source of substantial competitive disadvantage for Malaysia. Malaysia has made improvements in recent years, including the setting up of PEMUDAH (a special task force to facilitate business), which coordinated improvements such as halving the processing time for expatriate employment pass applications from 14 to 7 days and implementing an online business licence application system. In spite of these improvements, consistent feedback from private sector investors indicates that the business environment is still a major factor constraining investment. Too often, businesses face a tangle of regulations that have accumulated over the years and now constrain growth. Examples of how this affects the Education and E&E sectors follow as *Box 3-1* and *Box 3-2* respectively.

Box 3-1

Education Example

Malaysia has one of the most liberal regimes in the world for encouraging private investment into the education sector. However, actual investment has remained far short of potential because the general business environment is not seen as attractive by domestic and foreign investors. Establishing a kindergarten, for example, requires obtaining multiple licences, notifications and approvals, e.g. from the Ministry of Education, Ministry of Health, Companies Commission, Electricity Commission, Employees Provident Fund, Social Security Organisation, Inland Revenue, local authority, Occupational Health and Safety Department and Fire Department. Some of these vary by state and even district (e.g. local authority requirements), making national expansion much more difficult.

Box 3-2

Electronics and Electrical example

As described in the E&E chapter, an industry survey was conducted of E&E companies. On some of the dimensions reported to be less important, such as water availability and the cost structure, Malaysia was very competitive. However, on more important dimensions like government regulations and the ease of dealing with government, Malaysia was ranked about equal with China, and often behind Singapore.

Exhibit 3-1 further illustrates how Malaysia lags its regional competitors, as described in the World Bank's Doing Business Report 2010. Specifically, while Malaysia ranked highly in terms of ease of accessing credit and procedural ease of employing workers, it was behind on dimensions such as ease of starting a business (it takes around 11 days, compared to 6 days in Hong Kong), dealing with construction permits (involves 25 procedures, compared with 13 in Republic of Korea) and registering property (it takes 144 days, compared to 29 days in China).

Exhibit 3-1

Malaysia ranks 23rd in the World Bank Doing Business 2010 Report 2010 Global ranking

2010 Global ranking

	Ease of doing business	Starting a business	Dealing with construction permits	Registering property	Trading across borders	Enforcing contracts
Singapore	1	4	2	16	1	13
New Zealand	2	1	5	3	26	10
Hong Kong	3	18	1	75	2	3
USA	4	8	25	12	18	8
UK	5	16	16	23	16	23
Thailand	12	55	13	6	12	24
Japan	15	91	45	54	17	20
Republic of Korea	19	53	23	71	8	5
Malaysia	**23**	**88**	**109**	**86**	**35**	**59**

SOURCE: World Bank

The Investing Across Borders 2010 Report echoed the message that Malaysia's ease of doing business can be improved, especially for foreign investors. It also found that Malaysia was behind Asian competitors like Singapore and Republic of Korea, and even trailed ASEAN neighbours such as the Philippines, Vietnam and Indonesia in the level of foreign equity ownership allowed in sectors such as banking, healthcare and telecommunications.

In light of the complexities the EPPs are facing, many of them have requested enablers that will improve the business environment. These include:

- **Liberalisation**
  Examples include allowing foreign legal firms with expertise in Islamic finance to operate in Malaysia (Financial Services) and removing equity ownership conditions for accessing product development funds (Tourism); and

- **Ease of setup and operations**
  Examples include streamlining licensing procedures to set up early childhood education centres (Education) and further speeding up the processing time of approvals for healthcare facilities (Healthcare).

Beyond the EPPs, improving the business environment is an important way in which to achieve the substantial increase in private investment in business opportunities and non-NKEA sectors required to achieve the 2020 GNI targets (as described in Chapter 1). Specific ideas are contained in the Tenth Malaysia Plan, which in turn draws on advice provided by the National Economic Advisory Council. These include a comprehensive review of regulations, further liberalisation of the service sector, reduction in regulatory costs for SMEs and a streamlined Government-to-business interface.

Comprehensive Review of Regulations

By 2015, the Government aims to make Malaysia one of the top 10 nations in the world for the ease of doing business. To achieve this goal, the Government will begin with a comprehensive review of business regulations, starting with regulations that impact the NKEAs. Regulations that contribute to improved national outcomes will be retained, while redundant and outdated regulations will be eliminated. This review will be led by Malaysia Productivity Corporation, which will be revamped and restructured to ensure it has the necessary capabilities and resources.

Further Liberalisation of the Services Sector

The Government will act to liberalise the services sector to encourage greater investment. For example, removing equity ownership requirements from services sub-sectors (e.g. Retail) to encourage foreign investment; broader recognition of qualifications, e.g. for architects, engineers, allied healthcare professionals and educators; and removing restrictions on the composition of Boards. Several agencies will be involved in driving this work: Ministry of International Trade and Industry, Ministry of Education, Ministry of Science, Technology and Innovation and Ministry of Home Affairs.

Reduction in Regulatory Costs for SMEs

Many regulatory issues are felt disproportionately by SMEs, who typically do not have the financial resources to deal with regulatory requirements in a cost-effective manner. In order to encourage entrepreneurial activity, the Government will exempt some of the more costly business regulations for companies employing five or fewer people until the company expands beyond five employees. Regulations will be eased for these companies in areas such as business registration and requirements for employers. International experience has shown that this can be a highly-effective method of stimulating entrepreneurship.

Streamlined Government-to-business Interface

In addition to reforming the policy and regulatory environment, the Government will also undertake a series of actions to improve the interface between business and Government to make investing and operating in Malaysia more attractive. Improving the quality and timeliness of Government services and increasing transparency and certainty in government decision-making will yield significant productivity gains.

BUILDING INFRASTRUCTURE

Malaysia's physical infrastructure has grown significantly in the last five years. However, substantial additional infrastructure investments are now required to support the economic growth that will be delivered through the ETP. We will not provide infrastructure in a reactive manner. Rather, we will put in place forward-looking infrastructure development plans, with a view to future-proof the Malaysian economy.

Two types of infrastructure will receive particular attention due to their central roles in driving GNI: broadband and logistics.

Broadband

Broadband is a critical piece of enabling infrastructure for the success of EPPs in areas like Communications Content and Infrastructure, Electronics and Electrical, Financial Services, Wholesale and Retail, Business Services and Education. For instance, broadband will:

- Increase capacity (bandwidth) to spur data centre hubs (Business Services);
- Enhance speed to facilitate transmission of large IC design documents (E&E); and
- Widen coverage and access to boost virtual mall (Wholesale and Retail).

Beyond the EPPs, broadband is also critical to the growth of other sectors of our economy.

The Government's objective is to raise Malaysia's broadband penetration rate to 75 percent of households by the end of 2015 (from around 40 percent currently). This is being achieved through a combination of high speed broadband (up to 100 Mbps) in high economic impact areas (such as Greater Kuala Lumpur/ Klang Valley) and broadband to the general population (below 5 Mbps) in semi-urban and rural areas. The Government is jointly funding the rollout of the former via a partnership with the private sector and the latter partly through the Universal Services Provision fund.

The Malaysian Communications and Multimedia Commission and Ministry of Information, Communications and the Arts will continue to work with telecommunications companies to widen network coverage, increase network speeds and further increase broadband affordability. The Government will also amend the Uniform Building By-Law 1984 to mandate developers to incorporate broadband facilities in residential and commercial areas.

Logistics

Malaysia has some of the region's best logistical infrastructure, including the award-winning Kuala Lumpur International Airport, the North-South Highway linking the length of Peninsular Malaysia and Port of Tanjung Pelepas in Johor.

To support the success of the ETP, we will upgrade existing infrastructure, such as roads, ports and airports, and construct new logistics infrastructure if there is a sufficient business case, in order to facilitate the efficient movement of people and goods.

Infrastructure investments are one of the core themes of the Greater KL/KV NKEA: the high speed rail link between Kuala Lumpur and Singapore and the mass rapid transit system within Greater KL/KV. In addition, infrastructure investment has been requested to upgrade Bintulu into an international airport to attract silicon producers (E&E) and to speed up construction of roads leading to a big box boulevard in Nusajaya (Wholesale and Retail).

Improving logistical infrastructure will have far-reaching impact for the country beyond the NKEAs. For this reason, the Government has already committed to enhancing access and connectivity under the Tenth Malaysia Plan. Specifically, the Government has committed to:

- **Building and improving roads**
  Several key roads such as the Penang Second Bridge (linking Penang island to the mainland) and the South Klang Valley Expressway are scheduled to be completed from 2012 onwards;

- **Developing the rail network**
  The Government will extend the North-South electrified double-track railway line to Johor Bahru, purchase new train sets (and refurbish existing ones) and modernise facilities and technologies for rail services on the east coast of Peninsular Malaysia and Sabah;

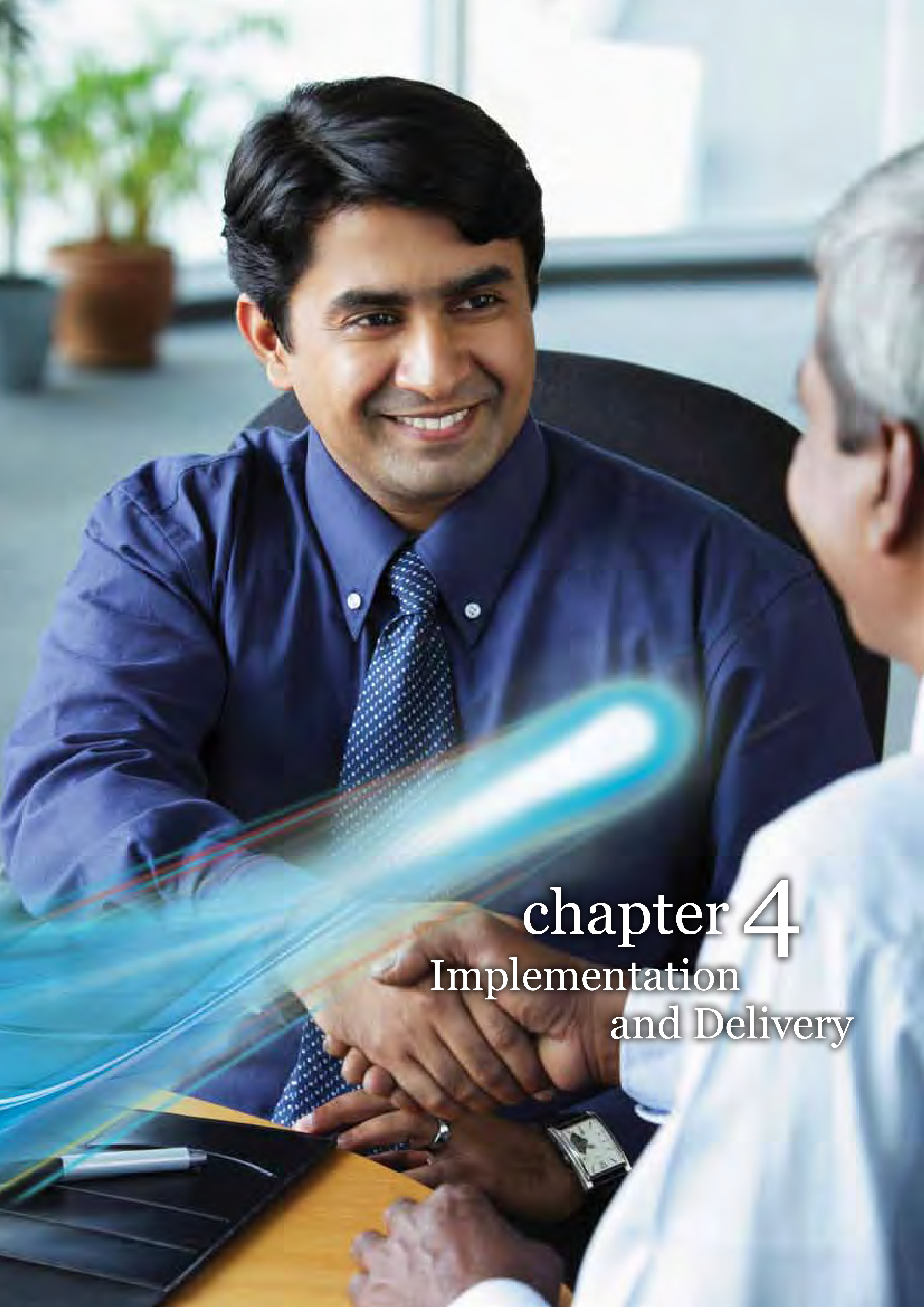
- **Upgrading maritime infrastructure**
  Initiatives include dredging port channels to cater for bigger vessels and expanding capacity at Westport of Port Klang, Port of Tanjung Pelepas and Penang Port; and

- **Improving airports**
  Among others, the Government is building a new low-cost carrier terminal at Kuala Lumpur International Airport and expanding passenger and cargo capacity at Penang International Airport.

The Economic Planning Unit will, along with the Ministry of Transport and the Ministry of Works, coordinate this programme of infrastructure investment.

CONCLUSION

Though the success of the ETP will be very much in the hands of the private sector who will implement the 131 EPPs, the Government will have a big role to play in facilitating the growth of the sectors through enabling actions that support the EPPs and the business opportunities. Successfully attracting more than RM1.3 trillion of domestic and foreign private investment will hinge on investment promotion activities as well as the development of a clear framework for fiscal support. Staffing the 3.3 million new jobs being created by the NKEAs will require a significant effort at growing human capital, through investing systematically at developing local business leaders, attracting foreign talent and streamlining immigration. The Government will also look at creating a conducive business environment through deregulating, reducing compliance costs and improving the efficiency of government operations in order to encourage the private sector. Finally, the ETP will require further infrastructure build up, such as broadband and logistics, to support the transformation of Malaysia into a high-income economy.



chapter 4
Implementation and Delivery

Chapter 4: Implementation and Delivery

The Economic Transformation Programme (ETP) has been designed to transform Malaysia into a high-income developed nation with a RM1.7 trillion (USD523 billion) gross national income (GNI) economy by 2020.

Success however, is dependent upon effective implementation and delivery. This will require the public and private sectors to work in partnership to carry out 131 entry point projects (EPPs) spanning the 12 National Key Economic Areas (NKEAs).

To ensure rapid and effective delivery of the ETP, the Government has:

- Committed to a specific and actionable Promise to the Private Sector to play an effective facilitation role to ensure private sector ownership, transparent funding, swift implementation and clear accountability throughout EPP delivery;

- Brought together all of Government to work in partnership with the private sector, with each agency having clear roles and responsibilities, to ensure coordinated implementation of EPPs and enablers;

- Established an ETP Unit under PEMANDU, which will work with the Economic Planning Unit to facilitate delivery, from resolving issues to monitoring performance;

- Designed performance monitoring and reporting mechanisms to ensure accountability for EPP delivery and public transparency of outcomes; and

- Built a process to allocate public funding to the highest impact areas in terms of GNI, and in a transparent manner – both now and in the future.

OUR PROMISE TO THE PRIVATE SECTOR

To successfully deliver a programme of this scale requires multiple parties to work together – in a new way – towards a clear, common goal of becoming a high-income nation by 2020.

The ETP is fundamentally different from many other government programmes. While the Government is held accountable to architect and facilitate the process, the private sector will be attracted to take ownership for, invest in and deliver EPPs under this programme. While the scale of funding is large, it will be transparently and swiftly allocated, based on merit, to a set of carefully defined EPPs, which will be initiated and carried out by the private sector. Challenging issues and potential delays may arise, and when they do, the Government commits to serve as an accessible partner to drive through rapid resolution.

In this spirit, we set out to achieve a level of accountability and efficiency that has rarely been seen in public-private sector partnerships before.

The Government promises to:

- Ensure the private sector owns EPPs wherever possible, shifting the public sector's role to providing support and facilitation;
- Fast-track amending regulations, removing barriers and establishing other enablers that are specifically required by EPPs;
- Avoid crowding out private sector investment and focus investment of public funds only as a catalyst;
- Award public contracts for funding EPPs using a merit-based, market-friendly, transparent and rapid process;
- Revamp Malaysian Industrial Development Authority (MIDA) to effectively attract foreign and domestic investment at the targetted EPPs;
- Regularly seek and responsively act on feedback from the private sector;
- Provide annual reports to objectively assess the impact of the ETP; and
- Maintain the ETP as a national priority, ensuring it is prioritised in terms of leadership attention, funding and support.

ALL OF GOVERNMENT WILL COME TOGETHER AND PARTNER WITH THE PRIVATE SECTOR TO ENSURE DELIVERY

The process of transforming an EPP from an idea into a fully executed project that has delivered GNI impact and new jobs requires several components.

Delivery ownership is needed to ensure that there is always a single point of accountability. As part of the labs, the private sector has co-created the ideas, developed implementation and funding plans and identified the required enablers for the EPPs. While many of the EPP owners identified are part of Government, these owners are considered to be initial caretakers that will manage a transparent process to select EPP owners and allocate funds. As part of this process, the private sector will drive EPP implementation.

Support is needed to ensure that required enablers are in place. For example, building an eco-tourism resort requires more than just private sector actions. Implementation might require putting in regulations to restrict maritime activity that damages coral, building roads to provide access to new areas or other supporting actions. It is the Government's role to eliminate these hurdles, ensuring that the required enablers are put in place rapidly and delays are minimised.

Funding is needed to ensure that every EPP has sufficient funds to cover its developmental and operational costs and may require contributions from both private and public sources. The private sector is expected to provide the majority of funding, while the Government will ensure that its contributions are used for the highest impact EPPs and are allocated transparently.

While the private sector will lead the delivery of EPPs and will have responsibility for funding these projects, it will also need to highlight areas where support is required. As such all of Government will come together to ensure delivery. Here are examples of the roles of Government agencies:

- Ministries will predominantly play a supporting role to resolve any issues that may arise in the implementation of EPPs. However, some ministries may have accountability for the delivery of selected EPPs (varies depending on the NKEA), especially where no natural private sector owner exists;

- Regulators will play a supporting role. Some EPPs may require amendments in regulations or need sector specific incentives. In addition, regulators will coordinate and bring together a group of industry players to collectively implement an EPP or part of an EPP. They will also assess ways to mitigate risks under these projects;

- The Economic Planning Unit and the Ministry of Finance will allocate and disburse funding for EPPs where public funding is required;

- MIDA will play a supporting role for many EPPs by attracting investment through marketing and business development activities targetting foreign and domestic investors. MIDA will also seek EPP owners, negotiate incentives where necessary and serve as a one-stop shop for investor contact. In some instances, MIDA may lead the first stage delivery of EPPs in the interim, especially those wholly dependent on foreign investment;

- Talent Corporation will provide support to EPPs by executing programmes to attract and retain talent. Similar to MIDA, it may be accountable for the delivery of select EPPs, especially those dependent on attracting talent;

- PEMUDAH (a special taskforce to facilitate business) and the restructured and rebranded Malaysia Productivity Corporation will provide support to NKEAs by reviewing and recommending changes to existing regulations and policies with a view to remove unnecessary rules and compliance costs and improve the speed and ease of delivery;

- UKAS (Unit Kerjasama Awam Swasta), a unit under the Prime Minister's Department to facilitate public-private partnership (PPP) will provide support to EPPs eligible for funding via the Facilitation Fund and in structuring PPPs where relevant; and

- Government-linked investment entities like Khazanah Nasional Berhad and PNB (Permodalan Nasional Berhad) will provide funding support by co-investing in EPPs that meet their investment criteria.

A NEWLY ESTABLISHED ETP UNIT WILL WORK WITH THE ECONOMIC PLANNING UNIT TO FACILITATE DELIVERY

To manage the delivery of the programme, we have set up the Economic Transformation Programme Unit (ETP Unit). ETP Unit is a division of PEMANDU, the Performance Management and Delivery Unit under the Prime Minister's Department, reporting to PEMANDU's Chief Executive Officer. The Economic Planning Unit is entrusted to prepare national development plans and allocate funding for all development projects. The ETP Unit will coordinate closely with the Economic Planning Unit to ensure delivery of EPPs.

ETP Unit Will Drive Delivery of the Programme

ETP Unit's role is to:

- **Architect and lead the ETP**
  The ETP Unit is tasked with bridging public and private sectors. It has already designed and led a Thousand Person Workshop to determine the NKEAs, facilitated the eight-week NKEA labs and held Open Days for the public. It is tasked with adapting the ETP to tackle any execution challenges and changes in the local or global economic environment;

- **Solve issues that arise and support implementation as needed**
  Through regular meetings with EPP owners, ETP Unit will identify issues, bring relevant parties together and help resolve problems. ETP Unit may also raise issues to the highest levels of government, for example the Economic Council. In some cases, where no natural owner exists, the ETP Unit will be accountable to report progress on several EPPs;

- **Bring necessary parties together to invest in EPPs**
  In cases where there is no clear owner for EPPs or where fundraising efforts have not met targets, the ETP Unit may identify and bring together other units of Government that have not yet been involved in the process. For example, it may notify MIDA (which holds a mandate to mobilise investment from both domestic and foreign sources) where its support is required. It will also work with EPP owners on alternative ways of structuring and accessing investment;

- **Ensure accountability and intensely monitor delivery of outcomes**
  ETP Unit is tasked with ensuring that each EPP has an owner, clear key performance indicators and milestones prior to distributing funds. It is also responsible for monitoring and reporting progress. As part of this process, a formal review will be held every six months between the Prime Minister and the relevant Lead Minister. In preparation for this review, ETP Unit will prepare a confidential report that summarises the progress of the NKEA over the previous six months and action plans for the next six months to resolve roadblocks to achieving targets. This report will be used by the Prime Minister as the basis for his formal performance review dialogues with the relevant Lead Minister;

- **Support communication and engagement, particularly to investors**
  The ETP Unit will prepare and present the ETP on a regular basis through forums including investor road-shows, Invest Malaysia conferences and targetted outreach to potential high-impact investors including domestic and international funds; and

- **Provide an annual report to the public**
  The ETP Unit is responsible for regular and transparent reporting across NKEAs. As part of this effort, it will publish an annual report to the public that will transparently describe the achievements of the ETP and the rationale for any performance gaps, if any. The annual report will provide details across all NKEAs, all individual EPPs and their supporting enablers. The first report will be published in Q1 2012.

Leadership, Reporting and Staff

The CEO of PEMANDU will be held accountable to the Prime Minister, to ensure that the overarching GNI and job creation targets of the ETP are delivered. As such, he is expected to work closely and interact regularly with the Prime Minister and other leaders at the highest levels of Government to ensure the programme's success.

ETP Unit will have dedicated full-time staff to carry out its mandate. Staff will be selected through a rigorous process to identify and appoint the best and brightest people, not only from across the civil service, but also from the private sector. Staff will possess outstanding leadership skills and problem-solving abilities and share a passion for public service. They will be accountable for setting key performance indicators (KPI) and overseeing performance for NKEAs and specific EPPs.

Economic Planning Unit's Linkage and Partnership with the ETP Unit

The Economic Planning Unit is entrusted to prepare economic development plans for the nation, and ETP Unit will foster a close working partnership with it to carry out its mandate of ensuring EPP delivery.
While ETP Unit is focused primarily on ensuring delivery of EPPs, the Economic Planning Unit will take a leadership role in closely related matters, including:

- **Allocating and disbursing funding for EPPs**
  While the Cabinet and Parliament ultimately approve funding for the programme, the Economic Planning Unit is a driver of the process in that it reviews funding requests and provides feedback throughout. This is to ensure that funding is allocated to the highest impact EPPs. Once funding is allocated to specific EPPs, the Ministry of Finance is responsible for disbursing the funds on an annual basis. As part of this process, the Economic Planning Unit will ensure that specific KPIs and owners are identified before funding is disbursed, and that ongoing funding is not disbursed in cases where performance has not been met and where the Lead Minister advises against additional funding;

- **Incorporating the ETP into future Malaysia plans**
  The Economic Planning Unit plays an important role in ensuring that the ETP is fully integrated into Malaysia's five-year planning cycle. By incorporating the ETP into the Eleventh Malaysia Plan, the Economic Planning Unit ensures that there is alignment in the Government's transformation agenda and that funding can continue without delay as part of the budget process; and

- **Ensuring that key enablers are in place**
  The Economic Planning Unit will play a prominent role in driving many enablers identified under the NKEAs. It will need to ensure that these enablers are put into place swiftly to allow for timely implementation of the EPPs. For example, the Scaling Up Early Child Care and Education (ECCE) Centres EPP (under the Education NKEA) requires that the Economic Planning Unit work together with the Ministry of Finance to assist in securing preferential loans from government institutions.

PERFORMANCE MONITORING AND REPORTING

While having clearly defined roles and responsibilities is an important step for ensuring accountability, it is not sufficient. The size and scale of our transformation programme requires that each of the 131 EPPs has clear ownership responsibility, each of the 12 NKEA areas has robust governance structures in place for accountability and that the entire programme has active monitoring and progress reporting.

While specific governance details may differ slightly across NKEAs, there are common structural elements. In this section we describe the common elements that will bring about timely EPP delivery, namely single point accountability and governance structure.

Ensuring Single Point Accountability for Each EPP

To support rapid and transparent delivery, we will ensure that:

- **Every EPP will be led by the most natural owner in the private sector, except in a few cases where public sector ownership is more appropriate**
  As mentioned earlier in this chapter, many of the EPP owners listed in this roadmap will serve as initial caretakers who will oversee the process of transparently selecting private sector owners, assigning detailed milestones and administering funding. The ultimate responsibility for most EPPs will rest with private sector managers who will lead implementation efforts on the ground;

- **Various Government agencies will work with the EPP owner to support delivery**
  Before the funding and implementation of any EPP begins, the project owner will submit a detailed list of the relevant parties to the Steering Committee, detailing their roles in the process and their degree of involvement. We will utilise the RASCI[1] framework to ensure that every person involved with the execution of an EPP and enabler is assigned one or more roles, as shown in *Exhibit 4-1*; and

- **Each EPP owner will be held accountable for meeting the milestones and key performance indicators and Lead Ministers are responsible for overall NKEA performance**
  Detailed milestones will be developed and agreed upon at the Steering Committee level prior to the Ministry of Finance disbursement of any EPP funding (see detail in next section). Reaching these milestones according to agreed-upon timelines is the responsibility of the individual EPP owner, who regularly communicates with an assigned member of the ETP Unit to raise any challenges in implementation faced and request swift resolution. The Lead Minister is accountable for the overall GNI and job targets in their respective NKEA, which requires performance across all EPPs. The expected outcomes will be translated into KPIs for each of the Ministers.

Common Governance Structures across NKEAs to Ensure Accountability

While there will be small variations in governance structures across NKEAs, the governance mechanism for EPPs and NKEAs is common across all sectors.

EPP owners will be accountable for execution and delivery. Owners will be primarily private sector leaders at the senior executive level who have significant involvement and committed ownership of the EPP.

Steering Committees oversee the success of overall GNI and job creation targets for each NKEA and work with EPP owners to ensure milestones are met. Each Steering Committee is chaired by the relevant Lead Minister, who bears responsibility for meeting these targets. Steering Committees will typically include senior representatives from both the government and private sector. In some cases, industry advisory panels may also be represented (e.g. Communications Content and Infrastructure NKEA and Electronics and Electrical NKEA). Steering Committees meet regularly (typically each month) to review progress, provide guidance and resolve conflicts.

1 RASCI is a framework for identifying roles and responsibility during a transformation and change programme. It stands for Responsible, Accountable, Supportive, Consulted, and Informed.

Exhibit 4-1

Roles and responsibilities

Structure		RASCI Framework
• Assist in resolving most challenging ETP issues • Review minister performance • Direct outreach to highest impact potential investors	Prime Minister	• **Consulted** on major and cross-ministry / agency issues • **Informed** of progress on the NKEAs and key EPPs
• Guidance and direction • Resolve conflicts • Oversee all NKEA matters	Steering Committee Chair: Lead minister	• **Consulted** on key decisions / issues at the NKEA and EPP level • **Informed** of progress on each EPP and key initiatives
• Set Steering Committee agenda • Bring all EPPs and NKEA issues together for the Steering Committee • Monitor progress and resolve issues with EPP teams	ETP Unit / Implementing Ministry	• **Responsible** (Implementing Ministry) for the key actions / decisions made relating to the EPP • **Support** (Pemandu) in overseeing implementation of all NKEAs and support in ensuring delivery
• Implementation of EPPs • Delivery of outcomes	EPP 1 | EPP 2 | EPP 3 | . . . | EPP 8 • EPP Owners • Team Members	• **Accountable** (EPP owners) for overseeing the implementation of the initiatives under the EPPs • **Support** (Team members) EPP owners in delivering outcomes

ALLOCATING FUNDING TO ACHIEVE THE HIGHEST IMPACT

While the private sector will fund a significant portion of the ETP, public funding plays an important role in catalysing investment in areas where additional support is needed.

The Government commits to safeguarding and fully leveraging public funds. In this spirit, we will ensure that public funds are prioritised for the NKEAs and EPPs with the highest GNI impact. Public funds will also be allocated to owners who are transparently selected based on merit and disbursed according to performance that is judged against milestones and key performance indicators.

Prioritising Public Funding to NKEAs and Highest Impact EPPs

The NKEAs have been carefully selected, and each has a disproportionate and material impact on the GNI of our nation. As such, we plan to prioritise the allocation of our development budget to the ETP to ensure NKEAs have the funding required for success.

We will also commit to prioritise public spending according to the EPPs with the highest leverage, where leverage is defined as the incremental GNI that can be achieved per public ringgit invested.

Transparently Selecting Owners Based on Merit

An important element of carrying out the programme is ensuring that all public funds are distributed through a process that is both transparent (e.g. with rules and processes clearly laid out) and based on merit (e.g. with fairness to all bidders).

Many of the EPPs will not need any Government funding and are open to any company that chooses to take advantage of an opportunity. In cases like these, the Government will simply focus on removing any barriers for those investments and monitoring each EPP to ensure it delivers the planned outcome.

Some EPPs, however, involve public funding. In cases like these, the Ministry of Finance will ensure that a transparent and merit-based process takes place. For example, the Expanding Private Teacher Training EPP in the Education NKEA requires the Government to select private sector partners to provide ECCE training for public sector teachers. Such a scenario requires a competitive bidding process (through a request for proposal, or RFP) to select providers based on merit.

In cases such as these, where Government funding will support a limited number of private sector partners, a bidding process will take place and will comply with the transparent, merit-based assessment process utilised by the Ministry of Finance.

Disbursing Funds Based on Performance

Funding will only be disbursed to EPPs where performance meets the milestones defined by the Steering Committee and the Lead Minister.

In cases where milestones are not met by the specified timeline, a Steering Committee has the responsibility to take one of several courses of actions:

- **The terms of funding can be changed if more urgency is needed**
  For example, the Steering Committee can put in place stricter milestones, shorter deadlines and more detailed reporting requirements in an effort to better monitor progress, identify issues and resolve them rapidly; or

- **Future funding can be withdrawn**
  This applies to cases where an EPP is deemed no longer feasible, or the GNI and job creation targets are later deemed to be significantly less than originally anticipated.

Ongoing Funding and Capturing Future Growth Opportunities

Funding for the ETP programme as approved by the Cabinet has been secured and will be allocated in a series of ongoing tranches.

- The initial tranche of funds for 2011 to 2012 was approved by the Parliament in October 2010;
- Funds for 2013 to 2015 will be approved in 2012 during the two-year planning cycle as stated in the Tenth Malaysia Plan;
- Funding for the programme from 2015 to 2018 will be approved under the Eleventh Malaysia Plan; and
- Final funding for 2018 to 2020 will be approved in 2017.

Over time we have the flexibility to rebalance our funding for NKEAs and EPPs. The current set of NKEAs reflects the areas that have the highest GNI growth forecast by 2020, and it is likely that there may be significant growth in other non-NKEA sectors in the future as markets and the environment changes. Furthermore, there may also be cases where EPPs will be removed from the programme if they do not meet GNI and job targets.

When it deems it appropriate, ETP Unit may recommend that a new lab process be put in place to rebalance the set of NKEAs and EPPs. This process will bring together participants from both the public and private sectors and will be transparently shared with the public in the spirit of the ETP.

CONCLUSION

The success of any transformation programme usually lies in the doing. The ETP will be judged by how the 131 EPPs and the enablers are implemented and delivered. This will require the public and private sectors to work in partnership. To signal its commitment, the Government has made a specific and actionable Promise to the Private Sector to play an effective facilitation role throughout delivery. Additionally, all of Government will be brought together to ensure coordinated implementation of the EPPs and enablers. This includes the PEMANDU ETP Unit, which will work closely with the Economic Planning Unit to lead this programme. To ensure accountability and public transparency of outcomes, the ETP was designed with clear performance monitoring and reporting mechanisms. Finally, public funding will be allocated into the highest impact areas in terms of GNI throughout the course of this programme.