

See discussions, stats, and author profiles for this publication at: <https://www.researchgate.net/publication/265235480>

Malaysia's New Economic Model Is the Malaysian government serious about economic liberalisation?

Article · January 2011

CITATIONS

8

READS

4,982

1 author:



Wan Saiful Wan Jan

ISEAS - Yusof Ishak Institute

33 PUBLICATIONS 116 CITATIONS

SEE PROFILE

Some of the authors of this publication are also working on these related projects:



Malaysian Economy [View project](#)



Chinese Investments in Malaysia [View project](#)

Background Paper

No. 14 / September 2011

Malaysia's New Economic Model Is the Malaysian government serious about economic liberalisation?

Wan Saiful Wan Jan

In March 2010, the Prime Minister of Malaysia launched the first part of Malaysia's "New Economic Model" (NEM). It calls for a more liberalised economy and reduced government intervention. It also proposes a radical shift from the heavily pro-Malay affirmative action practices that have been in place since the 1970s to a more inclusive and race-blind system. However, when the final part of the NEM was published in December 2010, the initial radicalism and boldness seem to have been watered down following pressure from Malay nationalists. Pro-Malay agenda reappeared. Several actions by the government indicated that they are not as committed to economic liberalisation as they claimed to be when the NEM was first announced. Nevertheless, overall, the NEM still promises significant steps towards the right direction. This paper provides an explanation of the NEM and a critical assessment of the politics around it.

Executive Summary

Multi-ethnic Malaysia, politically dominated by its Malay majority, has been seeking to reduce inter- and intra-ethnic income-disparities for decades. The "New Economic Policy" (NEP), introduced in 1971, led to pro-Malay affirmative action policies, which are still in place today. In terms of economic development, Malaysia has made strides and growth has been decent. But continuous government intervention in the economy sees the country now stuck in a middle income trap.

Affirmative action policies, which were introduced in the implementation of the NEP, succeeded in bringing the largely rural Malay communities into mainstream economic activities. But it has not succeeded in reducing income-disparities. While disadvantaged and unhappy about it, the minority Chinese and Indian communities are, on average, still better off. Within the Malay community, which is the target group for affirmative action, income disparity has actually widened. Pro-Malay affirmative action policy has produced damaging unintended consequences. Even the government admitted that affirmative action had created a rent-seeking culture that is a hindrance to creating an enterprising society.

In 2010, Prime Minister Najib Razak introduced the "New Economic Model" (NEM), which was published in two parts: Part 1 was released in March 2010 and the Concluding Part in December 2010. The government claims that the overall purpose of the NEM is to grow the economy by making the private sector the engine of growth so that Malaysia can become a developed country by 2020. The two documents should be read together as one set of policies, even though there are differences and contradictions between the two.

Part 1 is frank and bold. It admits that the economy up to date is one characterised by heavy government intervention and domination of Government Linked Companies (State Owned Enterprises), which have "a history of underperformance, poor governance practice and a host of other structural breakdowns in the GLC supply chain". NEM Part 1 seeks to transform the economy to one that is market and private sector-driven. It calls for opening up of the markets and significant reduction in government intervention. The model rests upon an assumption that Malaysia's economy must be more liberalised if she is to move forward rapidly enough to create a developed, high income nation. Prime Minister Najib is the first Malaysian leader to openly acknowledge – albeit with restraint – the relationship between Malaysia's economic structural problems with the NEP's affirmative action policy since the 1970s on the one hand and the government's Malay agenda on the other. Prime Minister Najib seems to have attempted to change Malaysia's affirmative action: The NEM Part 1 called for a radical shift from focusing on helping the Malays to helping the bottom 40% income groups regardless of ethnicities. This is a noble attempt. The document argues that "past affirmative action programmes have also inevitably propagated and embedded a distributive and entitlement culture and rentier behaviour".

Any policy change that touches on Malay privileges is risky. The launch of the NEM Part 1 in March 2010 led to an outcry from Malay nationalists, particularly about the lack of a "Malay agenda" in the NEM. This eventually led to the pro-Malay agenda being reborn in the Concluding Part document. Complaints from ethnic Malay pressure groups are taken very seriously by the government. The Prime Ministers' party, UMNO, is an ethnic-based Malay party. Thus, UMNO leaders, and especially the Prime Minister who is also UMNO President, cannot ignore the demands and threats made by Malay nationalist campaigners. Ultimately, they are UMNO's core voters. To that end, the influence of Malay nationalists, through UMNO, in Malaysian national politics cannot be ignored. They can exert pressure on policy makers at the highest level.

When the Concluding Part of the NEM was launched in December 2010, government wavering became apparent. Some of the boldness of Part 1 was lost and some suggestions were quietly killed off. The late Dato' Zainal Aznam Yusof, a respected economist, stated that the government had succumbed to pressure from Malay nationalists by watering the NEM down. For example, Part 1 suggested the creation of an Equal Opportunities Commission "to ensure fairness and address undue discrimination when occasional abuses by dominant groups are encountered". However, in the Concluding Part the tone changed almost completely, suggesting "targeted special programmes for certain groups outside of the bottom 40% (...) should continue". Rather than finding ways to end ethnic-based affirmative action favouring the Malays, the Concluding Part brought it back. The Equal Opportunities Commission was not mentioned anymore.

Nevertheless, overall, the NEM still promises significant steps in the right direction. Compared to the NEP of 1971, in which the government assumed almost all responsibility in driving the economy forward, the NEM calls for the private sector to take over. While the NEM does not remove the government completely from the picture, it does envisage a relatively more limited, facilitating role, mainly to ensure consumer choice and efficient market operations. At least that was the case

clearest in Part 1. Talking in relative terms, the NEM – clearly not a completely free market policy – espouses a *more* free market economy. The fact is, the government still plays a big role, especially through government-linked companies and their subsidiaries. But relative to the NEP, the NEM sets out to reduce the role of the government. Hence the NEM is *more* free market than the NEP. The magnitude of change espoused by the NEM should not be underestimated. After decades of having an economic policy heavily influenced by the politics of ethnicity, the NEM is a breath of fresh air that is trying to take Malaysia forward into politics of ideas. It is undoubtedly exciting to see that there is now the promise of a policy that sets the course to a more liberalised Malaysian economy.

Implementation is the key. Traditionally, there is a difference between what political leaders envision, and what is actually implemented. At the time of writing, the NEM in its complete form is not even a year old yet. It is of course too early to pass judgement. However, there already are signs that the government is not as committed as they should be to their own liberalisation agenda. Following demands from Malay nationalists, the government in February 2011 announced the establishment of a unit within the Prime Minister's Department tasked with ensuring that the economic interests of Malays are protected and enhanced. Thus, despite the NEM's initial attempt to move away from ethnic-based affirmative action, the government has been forced to bow to pressure in the implementation process. A pro-Malay agenda is firmly back on the table. There is a possibility that the government would fail to correct the distortions created by decades of pro-Malay affirmative action if they continue to bow to such pressures.

Watering-down the NEM from March to December 2010 has also facilitated the introduction of an illiberal new law. Part 1 had stated that a formal minimum wage "would be a wrong approach and in fact could exacerbate the situation by reducing competitiveness and reducing employment opportunities". The Concluding Part went in total contradiction by calling for a minimum wage policy to be considered. This reversal indicated that there is a vested interest lobby within the government machinery, influential enough to win battles. In June 2011, the government introduced the National Wages Consultative Council Bill. The bill was passed and declared as the first step towards establishing a minimum wage regulation.



Old and new: Malaysia is developing but income gaps remain

It must be acknowledged that many positive steps have been taken, including to reduce government involvement in business, encourage greater public-private partnerships, reduce subsidies and hand-outs, and to bring fresh ideas into the public sector. The fact that the NEM was published at all provides a clear sign that the Prime Minister wants his government to push ahead, and his liberalisation agenda must be supported. The presence of liberalisation spirit in the NEM is a much needed first step forward. Many of its principles have the potentials to turn Malaysia into a developed country. The challenge is to ensure that the Cabinet and the whole government machinery support the Prime Minister in showing political

will to persist with liberalisation. Only that way, the Prime Minister does not have to succumb anymore to lobbies from vested interests, especially the Malay pressure groups. Prime Minister Najib must be aware that the whole country, if not the world, is keeping a keen eye to see if he truly is a transformational leader who can achieve his own vision.

Table of Contents

Section 1: A brief background _____	5
Section 2: Summary of the New Economic Model _____	12
2.1 Key points from "New Economic Model for Malaysia Part 1" _____	13
2.2 Key points from "New Economic Model for Malaysia Concluding Part" _____	16
Section 3: Evaluating the New Economic Model _____	21
3.1 Does the NEM actually advocate true liberalisation of the Malaysian economy? _____	21
3.2 Can the Malaysian government stay true to the liberalisation agenda? _____	23
3.3 Concluding remarks _____	27
Appendix 1: Article 153 of the Federal Constitution of Malaysia _____	28
Appendix 2: Launch of New Economic Model Concluding Part _____	30
About the Institute for Democracy and Economic Affairs (IDEAS) _____	32
Glossary _____	33

Section 1: A brief background

To appreciate the significance of the New Economic Model (NEM), we have to very briefly go back in time. But to avoid confusing readers with contestations about Malaysia's history, this explanation is heavily simplified¹.

West Malaysia (or Peninsular Malaysia) is a stretch of land sitting between Thailand in the north and Singapore in the south. The country received her independence from Britain on 31 August 1957. At that time, the formal name of the country was Federation of Malaya.

But the word 'Malaya' in the English name of the country hides an important fact: that one ethnic group forms a very dominant voice in the country at that time. This is the "Melayu" or Malay² ethnic group. In the local language the official country name is actually "Persekutuan Tanah Melayu" (literally Federation of Malay Lands), which better reflects the level of influence, or perhaps even the claimed ownership, of this ethnic group on the country.



Malay women at a market

In the first few decades after independence, there was a linkage between ethnicity and economic functions. The Malays, despite claiming to be the "original" settlers in the land, felt that they were left behind. The complaints were mainly aimed at the "migrant" Chinese who were seen to be dominating the economy through their ownership of businesses. Even when employment data (not including business ownership) is analysed (see Figure 1) it can also be seen that more Chinese worked in higher paying non-agriculture jobs and the trend was somewhat consistent during the 10-year period

before and after independence in 1957.

On 16 September 1963, the Federation of Malaysia was formed by the merger of Malaya, Singapore, Sabah and Sarawak. Singapore is a small island to the south of Malaya, while both Sabah and Sarawak forms the northern part of the Borneo Island. The Prime Minister of Malaya, Tunku Abdul Rahman Putra, became the Prime Minister of the new country of Malaysia. Singapore however withdrew³ from Malaysia on 9 August 1965 and became an independent republic. Some in Malaya saw Singapore's entry into Malaysia as destabilising because her majority Chinese popula-

¹ This document is written mainly with a non-Malaysian audience in mind. A Malaysian reader may find some explanations rather tedious or repetitive. But for the target audience, most explanations have been simplified and the author has avoided as much as possible from using terms and words that are regularly used by Malaysians but maybe unfamiliar to non-Malaysians.

² The definition of "Malay" is contested among scholars. In this paper, to be more accurate, by the word "Malays" the author refers to the historically different groups who migrated to this land as well as those who are native to the land but are now collectively called Malays.

³ Some would argue that Singapore was expelled from Malaysia. But it is not within the scope of this paper to debate this issue.

tion could join with the Malayan Chinese to further threaten the interests of the Malays^{4, 5}. They welcome the exit of Singapore as this returns the population back in favour of ethnic Malays.

Figure 1 Occupational Composition of Employed Males, by Ethnic Community: Peninsular Malaysia, 1947, 1957, 1967

Occupation	1947			1957			1967		
	Malay	Chinese	Indian	Malay	Chinese	Indian	Malay	Chinese	Indian
Professional and Technical Workers	1.7%	1.6%	2.1%	2.7%	2.8%	2.6%	5.1%	4.6%	5.4%
Administrative, Executive, and Managerial Workers	0.6	1.3	0.7	0.2	2.6	1.3	1.0	4.0	1.6
Clerical Workers	1.1	3.5	2.7	2.2	4.4	5.3	3.2	6.2	6.6
Sales Workers	2.8	16.4	9.9	2.8	19.3	13.4	4.4	19.7	9.3
Service Workers	4.1	7.3	10.9	8.7	5.9	8.9	5.8	5.7	8.0
Craftsmen and Production Process Workers	4.1	13.9	9.4	4.9	20.2	13.4	6.9	20.3	13.4
Transport and Communication Workers	4.0	4.0	7.6	3.7	4.6	4.7	4.7	5.5	6.2
Miners	0.6	4.0	1.7	0.0	0.2	0.1	0.4	2.0	0.9
Laborers	2.8	2.8	10.2	4.3	7.3	12.8	8.7	8.5	13.5
Agricultural Workers	78.2	45.1	44.7	69.8	32.3	37.2	59.8	23.5	34.9
Not Reported	0.1	0.1	0.1	0.3	0.4	0.3	0.0	0.0	0.1
Total Employed	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Hirschman, Charles (1974). "Ethnic and Social Stratification in Peninsular Malaysia". ASA Rose Monograph Series

Developments in the primary commodity sector saw Malaysia's economy growing rapidly in the 1960s. However during this period some Malays were unhappy because they perceived the distribution of wealth as being unequal (see Figure 2), with the Malays lagging behind ethnic Chinese and Indians, both of whom at that time were regarded as immigrants.

⁴ See for example "British Documents on the End of Empire Project: Malaysia" (Edited by AJ Stockwell, 2004), page 208.

⁵ Data from Singapore Department of Statistics shows that there was around 1.5 million Chinese in Singapore during the period they were in Malaysia, i.e. 75% of Singapore's population.

Figure 2: Distribution of Household Income by Ethnic Groups in Peninsular Malaysia 1957 – 1970 based on 1959 RM prices

	1957/58	1967/68	1970
Malay			
Mean Income (RM per month)	134	154	170
Median Income (RM per month)	108	113	119
Indian			
Mean Income (RM per month)	228	245	300
Median Income (RM per month)	228	180	192
Chinese			
Mean Income (RM per month)	288	329	390
Median Income (RM per month)	214	246	265

Source: A.H Roslan (2001) "Income inequality, poverty and development policy in Malaysia". A paper presented at the International Seminar on "Poverty and Sustainable Development", 22 & 23 November 2001 organised by Université Montesquieu-Bordeaux IV and UNESCO-Paris, France. Original data cited from Perumal (1989) and Snodgrass (1980).

This inequality also partly explains why Singapore, particularly the Chinese in Singapore, was seen as a threat during the short period that they were in Malaysia. This perceived Chinese "threat" did not end with Singapore's departure from the new country. Eventually the sentiment contributed to the worst ethnic violence in Malaysia's history on 13 May 1969. In Kuala Lumpur, the capital of Malaysia, Malay and Chinese groups fought each other resulting in numerous deaths.

The May 13 bloodshed led to the birth of the New Economic Policy (NEP) in 1971. The aim of this economic policy is two-pronged – reducing absolute poverty irrespective of races and restructuring society with the eventual objective of eliminating the linkages between ethnic identities with economic function.

Ethnicity therefore has always been a major factor in Malaysian policy-making. The position of the Malays as a dominant group is enshrined even in the Federation of Malaysia Constitution. Article 153 of the Constitution (see Appendix 1) requires the Government to safeguard the "special position" of the Malays and the natives of Sabah and Sarawak.

Even though Article 153 also says the Government must equally protect the rights of other ethnic groups, Malay nationalists are increasingly shouting loudest. They demand the government to not only protect the "special position of the Malays", but also to give more prominence to the concept in all aspects of policy. Their loud voices bear significant influence on Government policies, as will be explained in Section 3.

Hence when discussing Malaysia's economic policies (or any other policies), the Malay agenda is one that cannot be ignored. We must also distinguish between the texts of policy papers with the way the government implements them.

For example, the text of the NEP says that the policy is to help everyone regardless of race or religion. But the thrust behind its *implementation* was to uplift the socio-economic status of the Malays. As a result, the coalition government led by United Malays National Organisation (UMNO) undertook many actions that favour mainly the Malays, creating an awkward affirmative action

environment that favours the majority Malay community who controls the power centres of the country.

Selected examples of government practices that favour the Malays / Bumiputera^a

1. Certain public-listed companies on the Kuala Lumpur Stock Exchange are required to have 30% Bumiputera ownership.
2. Regardless of financial standing, Bumiputeras receive an automatic discount when purchasing properties.
3. Government-run mutual funds, such as Amanah Saham Bumiputera (Bumiputera Trust Fund) which are capital-protected and profit-guaranteed are open to Bumiputeras only.
4. 55% Bumiputera quota for Public Service Department scholarships to go to overseas universities.
5. Many government-tender projects require companies submitting tender to be Bumiputera-owned.
6. Approved permits for automobiles allow selected Bumiputera companies to import foreign vehicles

a. Bumiputera literally means the "son of the soil". The ethnic Malays are the main Bumiputera in Peninsular Malaysia. In Sabah, the main Bumiputera are ethnic Kadazan, Bajau and Murut, while in Sarawak they are Iban, Malay, Bidayuh and Melanau. In this paper, the term is mainly used to refer to ethnic Malays.

To an extent, the NEP has successfully catalysed Malaysia's economic development and made Malaysia into one of the fastest growing countries in the region. Therefore, despite criticism, the NEP has indeed had its successes. But government intervention to restructure society through affirmative action policies has not been that successful. Worse, the unintended consequence of affirmative action being introduced is the creation of a rent-seeking culture that is a hindrance to creating an enterprising society.

At this point, it must be noted that this author distinguishes between the success of the NEP in catalysing Malaysia's economic development, with the lack of success in bringing up the economic status of the Malays through affirmative action. This author sees affirmative action as a product of the NEP, but the NEP itself is a much bigger policy agenda for overall economic development. The NEP *should not* be regarded as affirmative action alone.

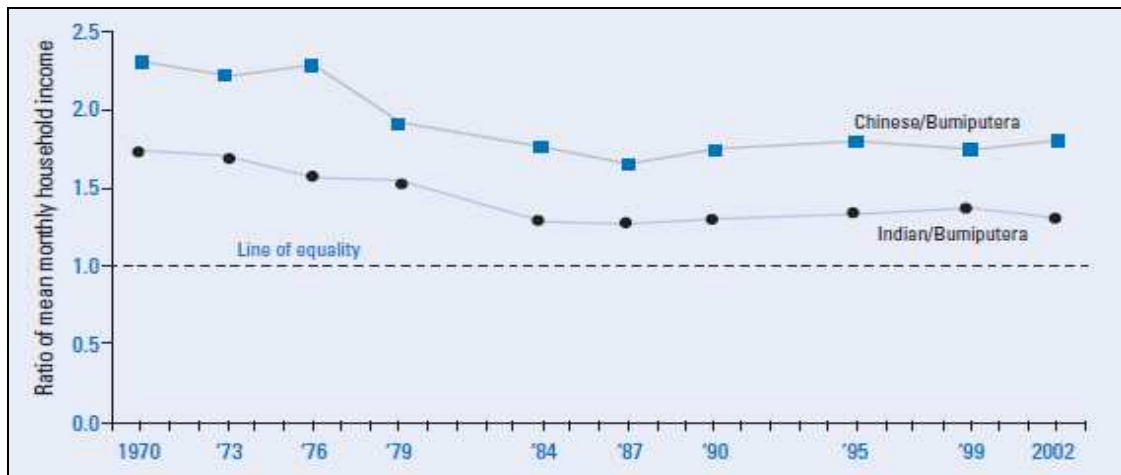


Figure 3: Ethnic groups disparities in mean monthly income 1970 – 2002

Source: "Malaysia: Achieving the Millennium Development Goals – successes and challenges", UNDP (2005), page 40.

Income disparity between Malay Bumiputeras and the ethnic Chinese and Indian persists. In a publication jointly written by the Economic Planning Unit of the Prime Minister's Department and the United Nations Malaysia Country Team, the authors stated⁶ (see also Figure 3):

"Ethnic income differentials generally narrowed over the period 1970–2002 ... The ratios of mean household income of Chinese and Indians to the mean household income of Bumiputera have generally fallen over this period, most notably in the 20 years up to 1990. However, over the last decade of the last century, relative incomes have been broadly constant, and absolute differentials in income have widened. Moreover, the Chinese mean household income remains about two times higher than that of the Bumiputera"



Malaysia has had a fast-growing economy but now the country is stuck in a middle-income trap

That is not the only problem with the implementation Malaysia's affirmative action policies. An equally significant issue was the fact that what was initially aimed at creating a level playing field for all ethnic groups by increasing the socio-economic status of the Malays actually ended up making only a select group the Malays richer.

In his review of affirmative action policies around the world, Thomas Sowell, Senior Fellow on Public Policy at Hoover Institution, said⁷:

"In Malaysia, as in other countries, the principal beneficiaries of preferences and quotas were those who were already more fortunate. An early empirical study of the effects of the New Economic Policy concluded that "at most 5 percent" of the Malays benefited from such policies. Within the Malay population, the income share of the top 10 percent rose significantly. Dr. Mahathir bin Mohamad, a Malay political leader later destined to become prime minister,

⁶ "Malaysia: Achieving the Millennium Development Goals – successes and challenges", UNDP (2005), pages 39–40.

⁷ "Affirmative Action Around the World: an empirical study" by Thomas Sowell (Yale University Press, 2004)

recognized the fact that it was the elite, rather than the masses, who benefitted from group preferences for the bumiputeras and bluntly admitted it, as well as seeking to justify it."

Sowell's assertion is supported by statistics. Dr Lim Teck Ghee, Professorial Fellow at the UCSI University and former Regional Advisor for UNESCAP and Senior Social Scientist at the World Bank, examined the Gini coefficient over a 40 year period and found that intra-ethnic disparity within the Malays has actually increased over the years (see Figure 4). In fact, the Bumiputera group continues to earn the least compared to ethnic Chinese and Indian (Figure 5).

Figure 4: Disparity within Malay Bumiputera

Year	Gini
1957/58	0.342
1967/68	0.400
1970	0.466
1976	0.494
1979	0.488
1984	0.469
1987	0.447
1990	0.428
1997	0.4495
2004*	0.452
2009*	0.440

Data compiled by Dr Lim Teck Ghee based on the 5-yearly Malaya / Malaysia Plans up to 1997, other than those marked * which were taken from The 10th Malaysia Plan published by Prime Minister's Department (pg 400)

Figure 5: Mean monthly gross household income by ethnic group and strata, 1999 and 2004

Ethnic Group and Strata	In current prices (RM)		In constant 1999 prices (RM)	
	1999	2004	1999	2004
Bumiputera	1,984	2,711	1,984	2,522
Chinese	3,456	4,437	3,456	4,127
Indians	2,702	3,456	2,702	3,215
Others	1,371	2,312	1,371	2,150
Malaysia	2,472	3,249	2,472	3,022
Urban	3,103	3,956	3,103	3,680
Rural	1,718	1,875	1,718	1,744

Source: Ninth Malaysia Plan published by Prime Minister's Department, page 333

The NEM, however, is supposed to be different. In the first part of the NEM report, Prime Minister Najib espoused a new concept of "market friendly affirmative action". The actual meaning of that phrase has not been defined properly. This author was invited by the NEAC to a working group meeting on the subject matter, and a point was raised in the group that the term itself is an oxymoron because affirmative action by definition is not market friendly.

Prime Minister Najib is the first Malaysian leader to openly acknowledge – albeit with restraint – the relationship between Malaysia's economic structural problems with the NEP's affirmative ac-

tion policy and the government's Malay agenda⁸. He is attempting to change the focus of Malaysia's affirmative action from favouring the Malays to one that assists the poorest 40 percent of the population regardless of ethnicity. This is a noble attempt. But from a political point of view, any policy change that touches on Malay agenda is extremely risky because of the powerful influence of Malay nationalists on Malays' voting patterns. This will be discussed further later in this paper.



Malaysia's Prime Minister
Najib Razak

The New Economic Model is published in two separate parts. The first part – entitled "New Economic Model for Malaysia Part 1" – contains strategic policy *directions* and was released on 30 March 2010. The second part – entitled "New Economic Policy for Malaysia Concluding Part" – outlines the strategic policy *measures* and was launched on 3 December 2010.

Although published separately, both documents should be read together. They outline a "big picture" strategy of how the government will transform the Malaysian economy into one with high income and quality growth by the year 2020. The second document is an elaboration of what need to be done to achieve the aims presented in the first document. However, as will be discussed in Section 3 below, the time gap has led to some contradictions and differences between the two documents.

The NEM was authored by the National Economic Advisory Council (NEAC). It was a much-anticipated model. The government started talking about it many months before the official announcement, and many were expecting a document that would be radically different from the previous "New Economic Policy" (NEP) which has been in place since 1971, when the Prime Minister was Abdul Razak Hussein, Najib's father. This document will explain how the Part 1 document was indeed quite radical, but the radicalism seems to have been lost in the Concluding Part.

At the time of writing, the NEM in its complete form is not even a year old yet. It is of course too early to pass judgement. Nevertheless, the magnitude of change espoused by the NEM should not be underestimated. After decades of having an economic policy heavily influenced by the politics of ethnicity, the NEM is a breath of fresh air that is trying to take Malaysia forward into a politics of ideas.

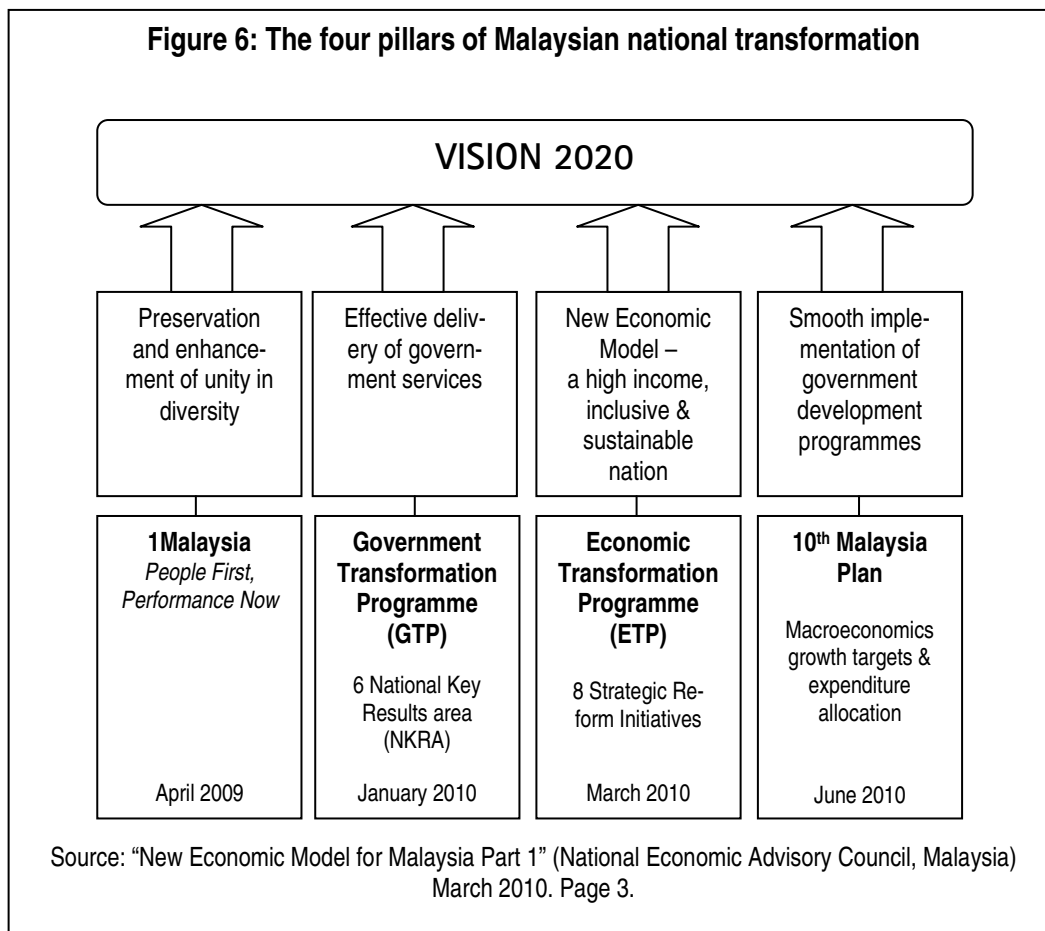
The next section will summarise the main ideas in the NEM, before a critical examination in section 3.

⁸ See "Malaysian Dilemma: the enduring cancer of affirmative action" by Dr John Lee (Centre for Independent Studies, Australia, February 2011)

Section 2: Summary of the New Economic Model

The NEM is outlined in two documents published separately: New Economic Model for Malaysia Part 1 (March 2010) and New Economic Model for Malaysia Concluding Part (December 2010).

The author of both documents is the National Economic Advisory Council (NEAC), a council of 12 prominent economists formed by the Prime Minister specifically to develop an economic transformation model for the country⁹.



It has to be noted that the NEM provides only the “bigger picture”. Detailed programmes on how the NEM targets will be achieved were developed by the Performance Management and Delivery Unit (PEMANDU), which is a unit under the Prime Minister’s Department. The implementation plan is called Economic Transformation Programme (ETP).

The NEM and ETP are actually part of a bigger transformation agenda driven by Prime Minister Najib. Figure 6 provides a pictorial representation of where the NEM sits within this wider agenda. The ultimate aim is to make Malaysia a developed high income nation by the year 2020, as specified in Vision 2020¹⁰.

⁹ <http://neac.gov.my/background>

¹⁰ For further explanation of Vision 2020, please visit <http://www.pmo.gov.my/?menu=page&page=1904>

The overall purpose of the NEM is to grow Malaysia's economy so that Malaysia can become a developed country by 2020 by transforming it from one that is led by the government to one that is market and private sector-driven. Both documents are supposed to be seen as one big package that will propel the country towards that goal. But to understand the political dynamics surrounding the NEM, we have to look at these two documents separately.

2.1 Key points from "New Economic Model for Malaysia Part 1"¹¹

The authors of the NEM believe that Malaysia is stuck in a middle income trap. The NEM is therefore a strategy to bring Malaysia out from that trap. The goals are three pronged: make Malaysia a high income nation which is both inclusive and sustainable, as shown in Figure 7.

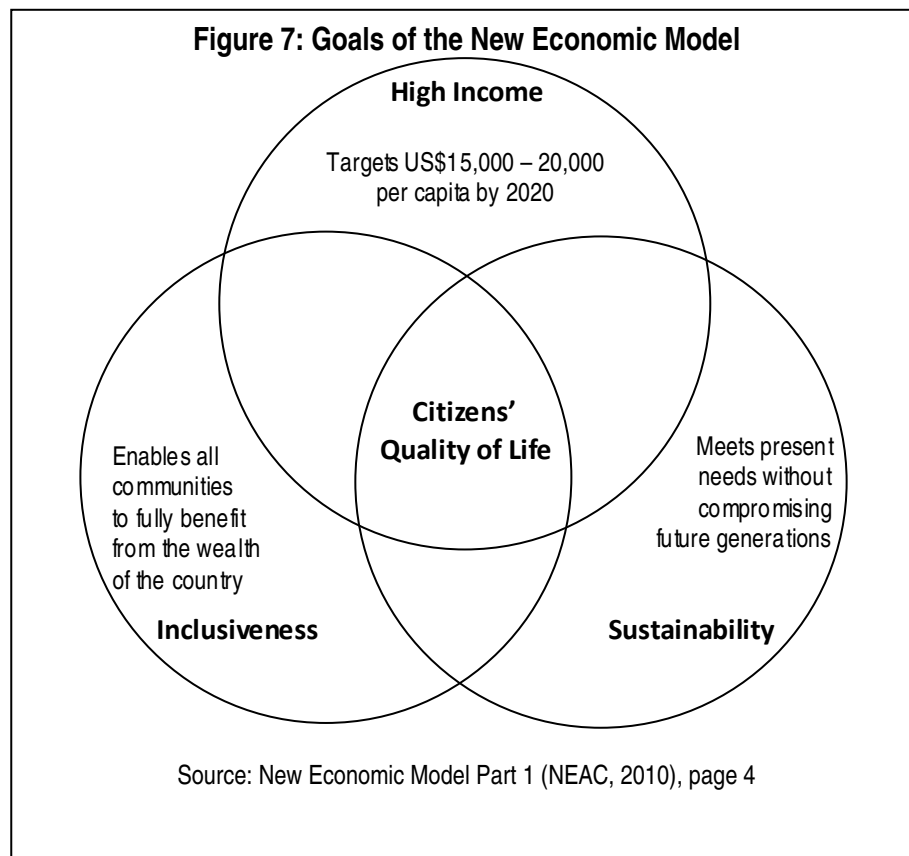
The key characteristics of the NEM are described in the document as:

1. A market-led economy.
2. A well-governed nation.
3. A regionally integrated country.
4. An enterprising and innovative society

The Part 1 document is very frank when dealing with challenges the country is facing. In particular, it identifies the following problems as major contributors to the middle-income trap:

1. Malaysia's growth rate has been slowing down. Before the Asian economic crisis in 1997, the growth rates averaged 9% from 1990 to 1997. But since then it has fallen to 5.5% from 2000 to 2008.
2. The level of private investment, including foreign direct investment, is declining. Heavy presence of government and government-linked companies (GLCs) was cited as the reason why private investors are discouraged in some industries.
3. Bureaucracy and inconsistent government policies are impeding growth of businesses and reducing competitiveness.
4. Malaysia is an export-focused economy but the vast majority is from assembly operations, therefore forcing Malaysia to compete on cost.
5. Malaysia is not seen as an innovation centre and Malaysian firms are not investing in research and development.
6. Most jobs, old and new, are low-skilled jobs which in turn create a situation whereby Malaysian salaries are relatively low.
7. Productivity is growing at a rate that is far too slowly.
8. There is a challenge in developing talent, and talented Malaysians are leaving the country

¹¹ In order to be as accurate as possible in this section, whenever possible the author takes texts directly from the document "New Economic Model for Malaysia Part 1" or borrows heavily from it.



The document then went on to propose eight Strategic Reform Initiatives (SRI) to address these challenges. The SRIs only set forth broad parameters, with the details to be worked out further in the Concluding Part (described further below).

SRI 1: Re-energising the private sector

- The private sector needs to step up and assume a heightened profile in the nation's transformation.
- A sustainable long-term economic growth is created primarily through entrepreneurial initiatives of the private sector.
- The dominance of the GLCs should be halted because they have unfair advantages over private firms, and this discourages private investments.
- In sectors where the private sector is operating effectively, GLCs should be privatised.
- Public-private partnerships will be encouraged.

SRI 2: Developing a quality workforce and reducing dependency on foreign labour

- There has to be a right match of skills and jobs in the labour market so that wage level can be raised.
- The talent base must be improved by creating a quality education system as well as by creating an environment that will attract Malaysians who have migrated, and entice others to stay in the country.
- Workers should be empowered with training and reskilling opportunities so that they can move up the value chain.
- Labour market distortions such as rigid labour laws and cumbersome immigration policies should be removed.

- Creation of a stronger social safety net, but not through the introduction of minimum wage because this could make the country worse off by reducing competitiveness and reducing employment opportunities.

SRI 3: Creating a competitive domestic economy

- Market distortions should be removed to introduce greater competition into the economy.
- These will be done through elimination of subsidies, price controls and a myriad of incentives that have deviated from their original objectives.
- Tax incentives should be rationalised to avoid creating a private sector that is reliant on government incentives.

SRI 4: Strengthening the public sector

- The public sector must not duplicate functions better provided by the private sector.
- Delivery of government service has to be made more efficient and effective by joining-up the thinking inside government.
- Public finance and budget management should be strengthened.
- Government revenue must be diversified and its collection improved.
- Federal-state fiscal arrangement should be reviewed to take into account differences between states.

SRI 5: Transparent and market-friendly affirmative action

- The affirmative action policy will be revamped to remove rent-seeking and market-distorting behaviours.
- The new affirmative action policy will consider all ethnic groups as long as they are in low income 40% of households.
- An Equal Opportunities Commission will be established to ensure fairness and address undue discrimination when occasional abuses by dominant groups are encountered.

SRI 6: Building the knowledge base and infrastructure

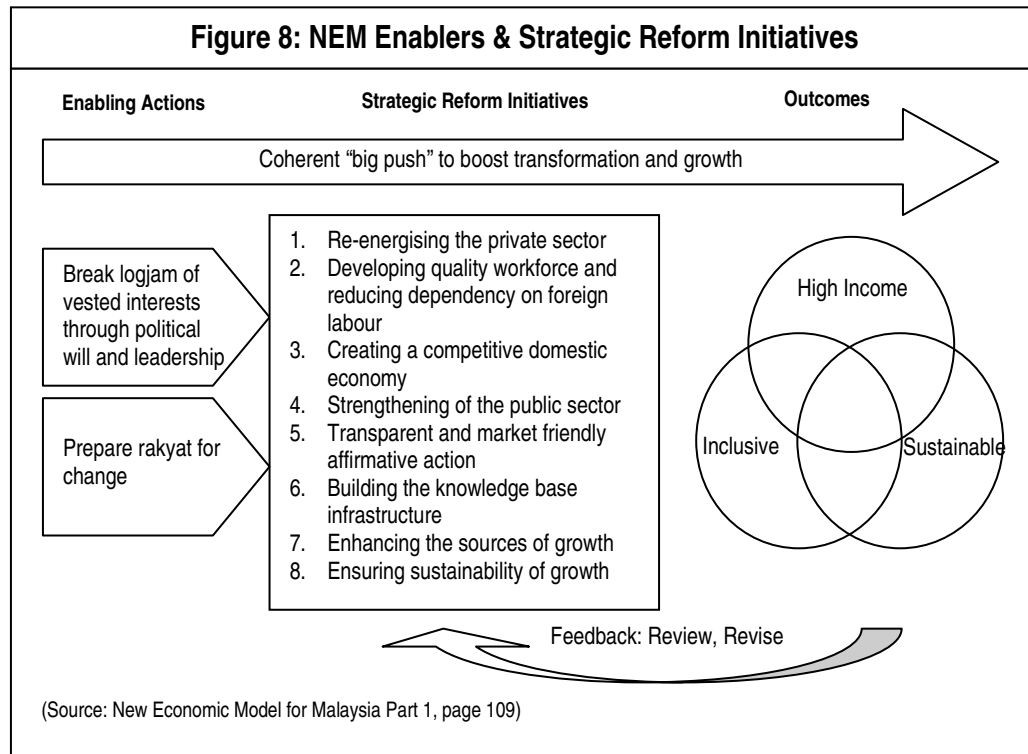
- Malaysia should adopt processes in line with best practices and international standards to enable Malaysian companies to compete successfully in the global market.
- Institutions of higher learning should be upgraded.
- There must be concerted effort to create an ecosystem that is conducive for entrepreneurship and innovation.
- Infrastructure critical to high value added activities such as high-speed broadband must be rapidly put into place.
- Enabling institutions such as relevant research centres should be set up.

SRI 7: Enhancing the sources of growth

- Malaysia must identify her comparative advantages and utilise them to push the economy forward.
- Key industries include natural resources, electrical and electronics, agriculture, tourism and education.
- There must be better integration between products and between production centres, so that scale can be created.

SRI 8: Ensuring sustainability of growth

- Preserving our natural resources and safeguarding the interest of future generations must be facilitated by applying appropriate pricing, regulatory and strategic policies to manage non-renewable resources efficiently.



2.2 Key points from "New Economic Model for Malaysia Concluding Part"¹²

Following the publication of NEM Part 1, the NEAC conducted further deliberations to propose more detailed policy measures necessary to implement the eight SRIs. Their recommendations are published in the Concluding Part, which identifies five high-priority cross-cutting areas that must be tackled head on and urgently.

The five cross-cutting policy recommendations are discussed below.

¹² In order to be as accurate as possible in this section, whenever possible the author takes texts directly from the document "New Economic Model For Malaysia Concluding Part" or borrows heavily from it.

Area 1: Transformation through reinvigorating the private sector

Key policy proposals under this area are summarised in the table below.

Eliminating rent-seeking behaviour
<ul style="list-style-type: none"> - set a rationalised and robust framework for public sector governance, making it principles-based rather than rules-based - make the governance framework adhere to internationally accepted principles - urgently address corruption problem - undertake external assessment of compliance in government agencies and publish rankings to create competition to be better
Rationalising government's participation in business
<ul style="list-style-type: none"> - divest non-strategic companies and re-engineer the roles of the remaining GLCs and channel proceeds from divestment into a sovereign wealth fund - create GLC Oversight Authority to oversee GLCs, collect financial data, monitor performance and hold GLCs accountable. This body should report to the Prime Minister's Department. - Re-engineer GLCs to support the private sector rather than compete with them
Adopting international standards and best practices
<ul style="list-style-type: none"> - use international best practices to facilitate connection to the global supply chain - convert existing Malaysian Standards into international standards
Promoting competition through liberalisation and deregulation
<ul style="list-style-type: none"> - continue the liberalisation programme, especially on key identified sectors, to remove restrictions on ownership and operations, with a medium-term target of generating a negative list - establish a deregulation unit and streamline regulations - remove unnecessary regulator burden - ensure independence and integrity of the Competition Commission and implement resolutely the Competition Law
Introducing innovation in financing
<ul style="list-style-type: none"> - increase access to funding (including a Transformation Fund) for start-ups and SMEs by shifting away from collateral based lending - establish an SME Angel Financing or Venture Capital Exchange - institute mechanisms to rate SMEs
Enhancing business connectivity
<ul style="list-style-type: none"> - accelerate the rollout of broadband to facilitate business transactions and activities
Preserving the environment
<ul style="list-style-type: none"> - adopt a "polluters pay" principle backed by legislation and target Green growth by capitalising on the potential to advance sustainable agriculture - rationalise subsidies and remove price controls on energy to encourage in the long run the adoption of renewable and green technology - favour sustainable agriculture

Area 2: Enhancing Innovation

Key policy proposals under this area are summarised in the table below.

Develop government and GLC procurement policies that support local innovative products and services
<ul style="list-style-type: none"> - remove any bias in government and GLC procurement practices against domestically developed and registered ideas - create incentives to encourage GLCs and private sector to purchase locally patented innovative products and services - introduce 'Forward Commitment Procurement' which typically involves agreeing to purchase a product which does not yet exist at a later date providing that it can be delivered according to specification and budget
Foster better and closer R&D links between institutions of higher learning and the private sector
<ul style="list-style-type: none"> - review and change if necessary policies that hinder national collaboration - introduce programmes that would allow mobility of researchers between research centres and relax rules that prevent them from getting involved in commercialisation activities
Turn existing centres of excellence into full fledged networks of excellence
<ul style="list-style-type: none"> - independently assess the centres to create a ranking, and use the ranking to guide funding decisions, determining priority areas, and to identify gaps in expertise.
Extract greater value from the development and management of intellectual property
<ul style="list-style-type: none"> - change the mindset of government and private from 'protection of IP' to 'collaborative exploration of IP' - enhance the role and functions of Malaysian Intellectual Property Corporation (MyIPO) - focus on the creation of quality IP
Consolidate and merge national enterprises to create scale
<ul style="list-style-type: none"> - GLCs should embark on specialised and knowledge-intensive ventures with lengthened time horizon when measuring performance

Area 3: Public sector transformation

The ultimate aim is to create a lean and customer focused public sector that can facilitate the private sector in growing the economy. The government needs to become an "Entrepreneurial Government" that can keep pace with a fast-changing world. The key policy actions required are:

Bureaucratic reforms
<ul style="list-style-type: none"> - strengthen government's facilitative role <ul style="list-style-type: none"> o make the government less interventionist and more facilitative by downsizing and refocusing its actions o review and reduce overlaps in the functioning of government agencies o leverage ICT to quicken processes

<ul style="list-style-type: none"> - Create a citizen-centred public service - Expand private delivery of public services by allowing access, on a competitive basis, to public funding (i.e. healthcare, higher education, technology support institutions, etc) - Enhance public agencies to drive growth - Extend judiciary and administrative reforms to all levels and nationwide
Improving the quality of human resources in the civil service
<ul style="list-style-type: none"> - reform the Public Service Commission so that it can halt the failure to build an efficient and high-performing civil service
Strengthening national policy formulation in economic governance
<ul style="list-style-type: none"> - revive the National Development Planning Committee as the premier body for policy development, coordination and consultation
Fiscal discipline and reforms
<ul style="list-style-type: none"> - implement accrual accounting to facilitate asset-liability management - implement efficient broad-based tax for revenue and fiscal stability, including by introducing Goods and Services Tax and lowering rate of corporation and personal taxes - strengthen expenditure control, including reducing the overstaffed public sector to cut down emolument spending and reducing subsidies and transfer payments - improve fiscal policy institutions and processes

Area 4: Intensifying human capital development

Key policy proposals under this area are summarised in the table below.

Workplace transformation
<ul style="list-style-type: none"> - modernise labour legislations to create full flexibility in hiring and firing, make conflict resolution more efficient and consistent, and improve effectiveness of mediation and arbitration so that the Industrial Court is seen as a last resort rather than a preferred avenue - strengthen strategic human resources management - enhance workers safety net through the introduction of unemployment insurance that is supported by programmes to upskill and retrain beneficiaries <ul style="list-style-type: none"> o payouts must have specified time limit o funding will come from levies on employers and workers - establish a National Wage Consultative Council made up of representatives from employers' groups, unions, non-union labour groups, government, academia, and civil society <ul style="list-style-type: none"> o the Council will produce guidelines that employers have to refer to when deciding wages - formalise a productivity-linked wage system - consider a minimum wage policy that is fair, does not distort the market, and is set based on rational process instead of political considerations

Workforce transformation
<ul style="list-style-type: none"> - undertake a labour market forecast and survey programme - upskill and upgrade the workforce - leverage women's talents to raise productivity

Area 5: Narrowing Disparities

This area is aimed at closing the gap in opportunity between ethnic groups and between the haves and have-nots. It is an attempt to elaborate on what is meant by "market-friendly affirmative action" that first appeared in the Part 1 document, as well to justify privileges given to certain ethnic groups by the Federal Constitution (refer to Article 153 in Appendix 1).

Key policy proposals under this area are summarised in the table below.

Reduce income disparity and regional differences
<ul style="list-style-type: none"> - establish an overarching policy on social assistance programmes to coordinate the plethora of such programmes dispersed across various ministries <ul style="list-style-type: none"> o The Ministry of Women, family and Community Development should be the coordinating agency for developing and monitoring this policy - all involved ministries and agencies should adopt a single comprehensive database - establish additional social assistance programmes on transportation and social housing, which constitute the bulk of low-income household expenditure <ul style="list-style-type: none"> o help increase mobility of the bottom 40% so that they can access better employment opportunities o set-up state-level Housing Boards to plan, develop and manage housing schemes for the bottom 40% o shift focus from home-ownership to leasing with an option to purchase o offer loans through Employers Provident Fund for the housing needs of the middle 40% - Enable the bottom 40% to break the cycle of poverty through education
Target programmes for the BCIC¹³
<ul style="list-style-type: none"> - continue and establish specific programmes for bumiputera SMEs only <ul style="list-style-type: none"> o target is to allow beneficiaries to graduate and become self-sufficient o Government and GLC procurement reservation for this group should continue but be targeted to SMEs only - focus on capacity building programmes

¹³ BCIC refers to the Bumiputera Commercial and Industrial Community. In theory this includes all native groups. In practice this term refers to a mainly Malay group.

Section 3: Evaluating the New Economic Model

The NEM can be evaluated from many different angles. Different assessment frameworks will result in different assessment outcomes. For example, those who believe in command economy would almost immediately argue that the NEM is a step in the wrong direction because it calls for opening up of the markets and significant reduction in government intervention.

However, the NEM authors repeatedly said in both documents that Malaysia is an open economy and should remain as one. In fact, the whole model rests upon an assumption that Malaysia must liberalise even more if she is to move forward and become a developed high income nation by 2020. Under such an unambiguous framework, there is only one option. Any evaluation must use the same liberal market framework for otherwise we would be deploying wrong measures.

In this section, we will try answer the following questions:

1. Does the NEM actually advocate liberalisation of the Malaysian economy?
2. Can the Malaysian government stay true to the liberalisation agenda?

3.1 Does the NEM actually advocate true liberalisation of the Malaysian economy?

The Part 1 document was a brave move towards the right direction. But, on the other hand, the Concluding Part presents a very mixed message, as if the NEM authors have been forced to restrain themselves and bow to political imperatives.

Overall, the most striking feature of the NEM is its boldness in suggesting the extent to which private sector should take over in driving the economy forward. This is very different from the NEP, in which the government assumes almost all of that responsibility. The NEM, however, espouses a *more* free market economy, one in which the private sector is the driver of economic growth with the government limiting itself to being a facilitator.

It has to be remembered that the NEM does not suggest for the government to completely step out from the picture. Instead, the NEM envisages a limited role for government, mainly to ensure consumer choice and efficient market operations. At least that was the case clearest in Part 1.

Therefore here we are talking in relative terms. The NEM is *more* free market than the NEP. This author is not suggesting that NEM is a completely free market policy. The fact is, the government still plays a big role even under the NEM, especially through government-linked companies and their subsidiaries. But relative to the NEP, the role of the government is to be reduced under NEM. Hence it is *more* free market than NEP.

The NEM is also very frank and honest about challenges faced by the country. For example, it admits that the Malaysian economy up to date is one characterised by heavy government intervention. GLCs dominate the Malaysian economy and in many GLCs there is "a history of underperform-

mance, poor governance practice and a host of other structural breakdowns in the GLC supply chain"¹⁴.

Pro-Malay affirmative action policy has created a rent-seeking culture that is a hindrance to creating an enterprising society. All these need to be reformed and the NEM is, importantly, attempting just that.

Example of rent-seeking behaviour resulting from pro-Malay affirmative action

*Ali Baba companies*ⁱ – A shortage of qualified Bumiputera entrepreneurs resulted in rentier behaviour and the setting up of spurious alliances with non-Malays. Infamously, "Ali Baba" ventures enjoying access to contracts and tenders initially meant for Bumiputera contractors have grown in numbers. These are joint-ventures between a less qualified Bumiputera with a financially endowed non-Bumiputera, set up to game the system. The Malay benefits by taking a cut from the deal without having to do the actual work, while the non-Malay partner benefits by being able to win a job that they would otherwise not even be able to bid forⁱⁱ. It is almost impossible to obtain data about these "Ali Baba" companies because no one would admit to being one and attempts to expose them are fraught with challenges.

*Non-payment of commercial loans*ⁱⁱ – The government setup schemes that give Malays preferential access to credit to start businesses. These commercial loans in practice often became gifts because of a widespread feeling that the "loans do not have to be repaid." This was especially so when "the debtors, drawn largely from the ranks of the local, ruling party stalwarts, are well-nigh untouchable."

*Not what you know, but who you know*ⁱⁱⁱ – Statistics show that Malay students whose families were in the top 17 percent of the income distribution received over half of all government scholarships. This is contrary to what the affirmative action policies initially set out to achieve as it seemed to widen the disparity *within* the Bumiputera group. Ostensibly, Bumiputera students whose families had connections to the ruling elite were better able to obtain scholarships.

- i. Source: Policy Brief 13 "Affirmative Action – Malaysia" (2006). Overseas Development Institute, London.
- ii. See for example this BBC news report "Malaysia's Ali Baba system causes ethnic tension" (<http://www.bbc.co.uk/news/business-13746051>)
- iii. Source: Affirmative Action Around the World: an empirical study by Thomas Sowell (Yale University Press, 2004)

If we were to go into the specifics, then there are many more good points about the NEM. But suffice to say that the overall strategic approach proposed in the NEM is a very good start indeed. Creation of a more liberalised economy has been proven to work well in propelling other countries forward, and if the Malaysian government remains faithful to the first steps towards liberalisation as outlined in the NEM, there is a chance that Malaysia will actually become a developed, high income nation by 2020.

¹⁴ NEM Concluding Part, page 19

3.2 Can the Malaysian government stay true to the liberalisation agenda?

Since the NEM is not even a year old yet, this author feels that it is too early to make a judgement. It is undoubtedly exciting to see that there is now a policy that sets the course to a more liberalised Malaysian economy. But there already are signs that the government is not as committed as they should be to their own liberalisation agenda. Some of these signs are described below:

Watering down of the NEM

Signs of government wavering can be identified simply by comparing the Concluding Part against Part 1. The NEAC authors have certainly been very bold at first. But the Concluding Part sounds too much like an attempt to balance competing political demands. Some of the boldness in Part 1 is lost from the Concluding Part, with some suggestions in Part 1 quietly killed off.

The NEAC submitted its proposals to the Prime Minister, and it is not known whether any edits were done prior to official release. For the Concluding Part, the draft was submitted to the Prime Minister on 3 September 2010, but it was not until 3 December 2010 that it was officially released (see press statements in Appendix 2).

At a conference organised by IDEAS on 8 February 2011, this author moderated a panel discussion in which the late Dato' Zainal Aznam Yusof, a respected economist and member of the NEAC, disclosed his unhappiness because some points proposed by the NEAC have been completely removed from the Concluding Part. He also argued that the government has, sadly, succumbed to pressure from Malay nationalists, and that the Concluding Part has watered the NEM down¹⁵. Unfortunately Dato Zainal Aznam's untimely death on 30 April 2011 means Malaysians will never know his specific complains. And since the minutes of NEAC meetings are not made public, it is impossible to find out what exactly happened that resulted in the NEM losing its boldness.

Return of affirmative action and pro-Malay agenda

When talking about providing help for the needy, the NEM Part 1 document initially called for a radical shift from focusing on helping the Malays to helping the bottom 40% regardless of ethnicities. It argues that "past affirmative action programmes have also inevitably propagated and embedded a distributive and entitlement culture and rentier behaviour"¹⁶. It also suggested the creation of an Equal Opportunities Commission "to ensure fairness and address undue discrimination when occasional abuses by dominant groups are encountered"¹⁷.

However, in the Concluding Part the tone changed almost completely, suggesting that the "NEAC also believes that targeted special programmes for certain groups outside of the bottom 40%, particularly those SMEs within the BCIC¹⁸, should continue". Rather than finding ways to end affirmative action favouring the Malays that has created an "entitlement culture and rentier behaviour", it seems like the NEM Concluding Part has lost its boldness. The Equal Opportunities Commission

¹⁵ The full video of the event can be viewed here: <http://ideas.org.my/?p=2343>

¹⁶ NEM Part 1, page 135

¹⁷ NEM Part 1, page 24

¹⁸ BCIC refers to the Bumiputera Commercial and Industrial Community. In theory this includes all native groups. In practice this term refers to a mainly Malay group.

was not mentioned at all in the Concluding Part. The most likely cause is pressure from Malay nationalists¹⁹.

The campaign by Malay nationalists is one that cannot be ignored by anyone looking at Malaysian politics. The three biggest parties in ruling Barisan Nasional coalition are all ethnic based parties representing ethnic Malays, Chinese and Indians. United Malays National Organisation (UMNO) is the biggest party in the coalition, reflecting the fact that the Malays form the majority of Malaysian population, and they are seen as the "big brother". The tradition is that the President and Deputy President of UMNO will be Prime Minister and Deputy Prime Minister respectively. Similarly, most of the important ministries – finance, education, higher education, defence, home affairs, information, etc – will also be in UMNO's hands.

As explained above, the affirmative action policies in Malaysia is targetted at helping ethnic Malays. Prime Minister Najib' economic liberalisation agenda through the NEM is perhaps the first time the Malaysian government links Malaysia's economic structural problems with affirmative action policies²⁰. The liberalisation programmes can be seen, partly, as an attempt to fix the problems created by too much government interventions in the economy and to reform the ethnic-based affirmative action.

But there is a difference between what political leaders envision, and what is actually implemented. Under pressure from nationalist groups like Majlis Perundangan Melayu (MPM)²¹ and PERKASA²², there is a possibility that the government would fail to correct the distortions created by decades of pro-Malay affirmative action.

At its core, UMNO is an ethnic-based Malay party. Thus, UMNO leaders, and especially the Prime Minister who is also UMNO President, cannot ignore the demands and threats made by Malay nationalist campaigners. Ultimately, they are UMNO's core voters. To that end, the influence of Malay nationalists, through UMNO, in Malaysian national politics cannot be ignored. They can actually exert pressure on policy makers at the highest level.

Groups like MPM and PERKASA have been complaining about the lack of a "Malay agenda" within PEMANDU, the body tasked with implementing the government's transformation programmes. Their complains are taken very seriously by the government and this has led to a re-birth of the Malay agenda in the implementation of the NEM.

On 28 December 2010 it was reported²³ that PERKASA demanded the establishment of a "Bumiputera PEMANDU" to drive forward a "Malay economic agenda". Within a mere six weeks, on 8 February 2011, the Prime Minister formally announced the establishment of TERAJU²⁴, a unit

¹⁹ As described above, Dato' Zainal Aznam Yusof, a member of the NEAC itself has accused the government of succumbing to pressure from Malay nationalists.

²⁰ "Malaysian Dilemma: the enduring cancer of affirmative action" by Dr John Lee (Centre for Independent Studies, Australia, February 2011)

²¹ Majlis Perundangan Melayu (Malay Consultative Council) is a coalition of 76 Malay NGOs.

²² Pertubuhan Peribumi Perkasa Malaysia (PERKASA) is a Malay nationalist movement launched in March 2010 aiming to defend what they see as "Malay rights". It is a founding member of the Malay Consultative Council.

²³ <http://www.themalaysianinsider.com/malaysia/article/perkasa-wants-a-bumi-pemandu/>. However, this author met Dr Hassan Mad, Secretary of MPM on 4 April 2011, and he insisted that MPM was the first to propose the idea, and, because they did it behind closed doors, they were not properly credited by the media.

²⁴ The full name for TERAJU is Unit Peneraju Agenda Bumiputera (Bumiputera Agenda Leadership Unit) <http://teraju.gov.my/english/02-00pendahuluan.html>

within the Prime Minister's Department that reports directly to the Prime Minister himself. The purpose of TERAJU is very similar to those demanded by the Malay nationalists, namely to ensure the economic interests of Malay and Bumiputera is protected and enhanced. The speed and efficiency at which TERAJU was formed astonished many observers, including this author. The Malaysian government is very rarely this efficient.

Thus, despite the NEM's initial attempt to move away from ethnic-based affirmative action towards more "market-friendly affirmative action", the government has been forced to bow to pressure from Malay nationalists in the implementation process. Pro-Malay agenda is firmly back on the table. In fact, at the time this paper was written, the oxymoronic term "market-friendly affirmative action" itself has not yet been given a proper definition and may have been forgotten altogether.

New government interventions in the economy

Minimum wage

Despite the NEM's call to make the private sector as the main driver of growth, the Malaysian government introduced the National Wages Consultative Council Bill in June 2011. This bill was also declared as the first step towards establishing a minimum wage regulation.

On the surface, the government claims that they wanted to impose a minimum wage legislation in order to empower workers and help increase living standards. The Minister of Human Resources, Datuk Seri Dr S Subramaniam, in his speech when introducing the bill in parliament on 30 June said "There is no hidden agenda by the Government. We take this step to ensure workers will get the wages they deserve". He also said "The Government guarantees that it will continue to listen to the biggest trade union and employers' federation before making any decision on issues of minimum wage."²⁵

Interestingly enough, both the parties the government said they would listen to actually rejected the bill. The Malaysian Trade Union Congress (MTUC) and the Malaysian Employers Federation (MEF) put up a very rare show of unity to protest against the bill as soon as it was introduced in parliament. The MTUC even said "We were never consulted over the matter... that is why we are shocked, it feels as though we do not matter."²⁶

The main complain by both employers and workers organisations was that, through the bill, the government is actually strengthening its own position rather than empowering workers and employers to negotiate with each other. The government, through the Minister of Human Resources, now has absolute control over who to appoint into the newly established National Wages Consultative Council (NWCC). Every single appointment can only be made by the Minister and he does not need to consult anyone. From a system where employers and workers could, at least in theory, talk to each other to set wages without involving government, this new system makes the government the most powerful and the ultimate decision-maker through their appointees in the NWCC.

²⁵ "Wage Act passed". The Star. 1 July 2011.

²⁶ <http://www.themalaysianinsider.com/malaysia/article/mtuc-mef-say-no-to-new-minimum-wage-bill/>

More glaringly, the Part 1 NEM document stated "Some have suggested that a formal minimum wage might be helpful to cushion workers against ... shocks or downturns. The NEAC strongly believes this would be a wrong approach and in fact could exacerbate the situation by reducing competitiveness and reducing employment opportunities"²⁷. It was obvious that the authors of the document were originally against minimum wage as they feel that it would be counterproductive²⁸. But the Concluding Part went in total contradiction to the Part 1 document by calling for a minimum wage policy to be considered, and this eventually led to the bill being passed in parliament. This reversal indicated that there was a strong vested interest lobby against the bold elements in the NEM within the government machinery itself, and they can exert influence to win the battle if they choose to.

Housing

The Malaysian government announced two new interventions in the housing market to make the purchase of first homes easier. The "My First Home" scheme was launched on 8 March 2011, aiming to help younger people earning less than RM3,000 per month obtain 100 percent financing from twenty participating commercial banks to pay for properties costing between RM100,000 and RM220,000. The second scheme is "1Malaysia People's Housing Programme (PR1MA)", which targets those earning less than RM6000 per month. This time, buyers can obtain up to 105% financing for properties priced up to RM300,000.

The intention behind both these schemes might be noble. Malaysian salaries are generally low relative to property prices. For the younger generation especially, saving money to pay the deposit for a property is extremely difficult. But by creating this new intervention in the housing market through which borrowers can obtain more than 100 percent mortgages, the government is taking away responsibility from the borrower and puts all the risks on the bank and the government.

It seems as if the Malaysian government has not learnt from the recent global economic crisis. America created the Federal National Mortgage Association (Fannie Mae) in 1938 and the Federal Home Loan Mortgage Corporation (Freddie Mac) in 1970, both tasked with making home ownership more affordable. The creation of these two American government-linked companies eventually contributed to a boom in the subprime mortgage industry. The existence of these government-sponsored schemes encouraged banks to issue mortgages to people who are not earning enough to qualify for normal mortgages. Exotic mortgage-related financial products were subsequently created which shifted the risk further and further away from the lenders. Ultimately, the price was paid when the housing bubble burst. It began with the virtuous intention of encouraging property ownership, but the unintended consequence was a disastrous subprime crisis decades later.

Unfortunately in this case political imperatives supercede objective economic rationality. As stated by IDEAS' Advisor, Khaw Veon Szu, "this move is only to be expected. As the outcome of the recently concluded Singapore general election unequivocally indicated, any governing party that ignores two critical factors – young voters and city dwellers' widespread unhappiness over sky rocketing properties prices does so at its own peril. Conventional wisdom dictates that people tend to vote for their economic interests. The logic is simple. If young voters own an asset like home mortgage, they will think twice before voting for a change that might upset the apple cart."²⁹

²⁷ NEM Part 1, page 114

²⁸ IDEAS has also published a literature review on minimum wage in Malay language entitled "Adakah gaji minima cara terbaik untuk membantu golongan miskin?" (Is minimum wage the best way to help the poor?) which can be accessed here: <http://ideas.org.my/?p=1371>

²⁹ "PR1MA – will good intentions bring the right results?", The Edge, 18 July 2011

3.3 Concluding remarks

Malaysia was built essentially by politicians who believe in free enterprise. The first Prime Minister of Malaya (and subsequently Malaysia), Tunku Abdul Rahman Putra, once said "I have always maintained that the Government must not indulge in business. This must be left to the business community³⁰." In fact, in a speech at a dinner honouring the visiting Vice-President of the United States, Spiro Agnew, Prime Minister Abdul Rahman even said "Mr. Vice-President, I am also glad to recall that there exist many similarities between our two countries. Both countries subscribe to the same democratic ideals, both believe in the system of free enterprise and both uphold the high ideals of human rights and freedom."³¹

Liberalising the economy therefore is nothing new. In fact, by liberalising the economy, it can be said that the government is attempting to bring the country back to the original path set by our founding fathers. As a nation, we were sidetracked by the ethnic-based agenda in the implementation of the New Economic Policy introduced under the premiership of Tun Abdul Razak. But his son, Prime Minister Najib Razak is trying to rectify the situation by at least gradually bringing the country back to its original, more liberalised, economic foundations.

The liberalisation spirit driving the NEM is a much needed first step forward for a country like Malaysia who is now stuck in a middle income trap. Many of the principles behind the NEM have the potentials to turn Malaysia into a developed economy "whose people enjoy a high quality of life and a high level of income resulting from growth that is both inclusive and sustainable"³².

The challenge is to ensure that the government, and especially the Prime Minister, has enough political will as well as receives enough support to continue the liberalisation agenda, and that they will not succumb to lobbies from vested interests, especially the Malay nationalists. Early signs indicate that the Prime Minister may need as much help as he could get.

Despite the problems and challenges described above, the fact that the NEM was published at all provides a clear sign that Prime Minister Najib wants his government to push ahead. This author has, in many occasions, stated that Prime Minister Najib's economic liberalisation agenda in the NEM must be supported if we want to propel Malaysia's economy forward.

Many positive steps have been taken, including reducing government involvement in business, encouraging greater public-private partnerships, reducing subsidies and handouts, and bringing fresh ideas into the public sector. It is, however, too early to judge the outcomes. Nevertheless, Prime Minister Najib must be aware that the whole country, if not the world, is keeping a keen eye to see if he truly is a transformational leader who can achieve his own vision.

Wan Saiful Wan Jan is founding chief executive of the Institute for Democracy and Economic Affairs (IDEAS), Malaysia's first think-tank dedicated to promoting market-based solutions to public policy challenges. More information can be found on www.ideas.org.my. He can be reached via email wansaiful@ideas.org.my. The author would like to thank Afif Abdullah and Aidan Chan, both of IDEAS, for their assistance in preparing this paper.

³⁰ "UMNO must remain united to be strong", The Star, 22 September 1986.

³¹ For further treatment on how Tunku Abdul Rahman, Malaysia's first Prime Minister who is affectionately called as "Father of Malaysia", subscribes to free market ideals, see "The Tunku's great ideas" by Lenard Lim Yangli (IDEAS, February 2011)

³² NEM Part 1, page 35

Appendix 1: Article 153 of the Federal Constitution of Malaysia

1. It shall be the responsibility of the Yang di-Pertuan Agong to safeguard the special position of the Malays and natives of any of the States of Sabah and Sarawak and the legitimate interests of other communities in accordance with the provisions of this Article.
2. Notwithstanding anything in this Constitution, but subject to the provisions of Article 40 and of this Article, the Yang di-Pertuan Agong shall exercise his functions under this Constitution and federal law in such manner as may be necessary to safeguard the special provision of the Malays and natives of any of the States of Sabah and Sarawak and to ensure the reservation for Malays and natives of any of the States of Sabah and Sarawak of such proportion as he may deem reasonable of positions in the public service (other than the public service of a State) and of scholarships, exhibitions and other similar educational or training privileges or special facilities given or accorded by the Federal Government and, when any permit or licence for the operation of any trade or business is required by federal law, then, subject to the provisions of that law and this Article, of such permits and licences.
3. The Yang di-Pertuan Agong may, in order to ensure in accordance with Clause (2) the reservation to Malays and natives of any of the States of Sabah and Sarawak of positions in the public service and of scholarships, exhibitions and other educational or training privileges or special facilities, give such general directions as may be required for that purpose to any Commission to which Part X applies or to any authority charged with responsibility for the grant of such scholarships, exhibitions or other educational or training privileges or special facilities; and the Commission or authority shall duly comply with the directions.
4. In exercising his functions under this Constitution and federal law in accordance with Clauses (1) to (3) the Yang di-Pertuan Agong shall not deprive any person of any public office held by him or of the continuance of any scholarship, exhibition or other educational or training privileges or special facilities enjoyed by him.
5. This Article does not derogate from the provisions of Article 136.
6. Where by existing federal law a permit or licence is required for the operation of any trade or business the Yang di-Pertuan Agong may exercise his functions under that law in such manner, or give such general directions to any authority charged under that law with the grant of such permits or licences, as may be required to ensure the reservation of such proportion of such permits or licences for Malays and natives of any of the States of Sabah and Sarawak as the Yang di-Pertuan Agong may deem reasonable, and the authority shall duly comply with the directions.
7. Nothing in this Article shall operate to deprive or authorise the deprivation of any person of any right, privilege, permit or licence accrued to or enjoyed or held by him or to authorised a refusal to renew to any person any such permit or licence or a refusal to grant to the heirs, successors or assigns of a person any permit or licence when the renewal or grant might reasonably be expected in the ordinary course of events.

8. Notwithstanding anything in this Constitution, where by any federal law any permit or licence is required for the operation of any trade or business, that law may provide for the reservation of a proportion of such permits or licences for Malays and natives of any of the States of Sabah and Sarawak; but no such law shall for the purpose of ensuring such a reservation—
 - a. deprive or authorise the deprivation of any person of any right, privilege, permit or licence accrued to or enjoyed or held by him;
 - b. authorise a refusal to renew to any person any such permit or licence or a refusal to grant to the heirs, successors or assigns of any person any permit or licence when the renewal or grant might in accordance with the other provisions of the law reasonably be expected in the ordinary course of events, or prevent any person from transferring together with his business any transferable licence to operate that business; or
 - c. where no permit or licence was previously required for the operation of the trade or business, authorise a refusal to grant a permit or licence to any person for the operation of any trade or business which immediately before the coming into force of the law he had been bona fide carrying on, or authorise a refusal subsequently to renew to any such person any permit or licence, or a refusal to grant to the heirs, successors or assigns of any such person any such permit or licence when the renewal or grant might in accordance with the other provisions of that law reasonably be expected in the ordinary course of events.

(8A) Notwithstanding anything in this Constitution, where in any University, College and other educational institution providing education after Malaysian Certificate of Education or its equivalent, the number of places offered by the authority responsible for the management of the University, College or such educational institution to candidates for any course of study is less than the number of candidates qualified for such places, it shall be lawful for the Yang di-Pertuan Agong by virtue of this Article to give such directions to the authority as may be required to ensure the reservation of such proportion of such places for Malays and natives of any of the States of Sabah and Sarawak as the Yang di-Pertuan Agong may deem reasonable, and the authority shall duly comply with the directions.

9. Nothing in this Article shall empower Parliament to restrict business or trade solely for the purpose of reservations for Malays and natives of any of the States of Sabah and Sarawak.
 - a. (9A) In this Article the expression "natives" in relation to the State of Sabah or Sarawak shall have the meaning assigned to it in Article 161A.
10. The Constitution of the State of any Ruler may make provision corresponding (with the necessary modifications) to the provisions of this Article.

Appendix 2: Launch of New Economic Model Concluding Part

NEM All Set to Take Off
The Star, 4 December 2010



Path to prosperity: Najib showing the report of the 'New Economic Model For Malaysia: Concluding Part' at its launching in Putrajaya Friday. Looking on is Tan Sri Amirsham A. Aziz, Chairman of the National Economic Advisory Council (NEAC).

The road map to steer Malaysia to become an advanced, inclusive, sustainable and high income nation is poised for implementation, Datuk Seri Najib Tun Razak said.

The Prime Minister said with the New Economic Model (NEM) module now in place, its execution needed to be flawless.

"Of course, there are always skeptics and detractors. But action and results are the best way to sway them. We have already begun the journey and in a short time, will be able to deliver.

"I want to reaffirm the government's resolute commitment to see through the transformation of Malaysia to an advanced nation," he said when launching the "New Economic Model for Malaysia – The Concluding Part" yesterday.

The initial stage was launched on March 30. Najib said the government would expedite the implementation of the Economic Transformation Programme (ETP), adding that the Performance Management and Delivery Unit (Pemandu) would serve as a co-ordinating and monitoring agency to ensure that implementation was on track.

He indicated that next month, several major announcements would be made involving new projects and policy initiatives to make Malaysia more attractive to the global market.

"We will be taking a short respite in December," he quipped. Najib stressed that the country's future would not be determined solely by those who governed but also the stakeholders.

"Just as we have high expectations for governance, we should also raise the bar for every citizen and business in this country. The transformational journey that has begun will profoundly affect all sectors, corporate players and participants in the national economy.

"In the short term, major adjustments will bring about losses to some. But in the long run, the benefits that materialise will benefit the vast majority of Malaysians and we will be stronger for it,"he said, adding the government was working to facilitate an enabling environment and to cushion the impact of change.

Najib said since its launch in March, most of the NEM's growth framework had been incorporated into the 10th Malaysia Plan and would also be reflected in the 11th Malaysia Plan, adding that several related initiatives had also been announced, including reforming insolvency laws, a RM474mil budget to enhance technical skills of non-graduates and rationalising the government's participation in business.

He said the government wanted to see individuals and businesses take the initiative to work together to move the nation forward.

About the Institute for Democracy and Economic Affairs (IDEAS)

The Institute for Democracy and Economic Affairs (IDEAS) is inspired by the vision of Tunku Abdul Rahman Putra al-Haj, the first Prime Minister of Malaysia. IDEAS shares his vision as stated in the 1957 Proclamation of Independence that this nation should:

"be for ever a sovereign democratic and independent State founded upon the principles of liberty and justice and ever seeking the welfare and happiness of its people and the maintenance of a just peace among all nations"

IDEAS is Malaysia's first think-tank dedicated to promoting market-based solutions to public policy challenges. We are an independent not-for-profit organisation. As a cross-partisan think tank, we work across the political spectrum. Our purpose is to advance market-based principles, and we are not bound by party politics, race or religion.

Our mission is to improve the level of understanding and acceptance of public policies based on the principles of rule of law, limited government, free markets and free individuals.

We achieve this mission through:

- Research
- Publication of reports and books
- Seminars, discussions and short courses
- Briefings for federal and state politicians and policy-makers from across the political divide
- Media engagements

IDEAS was officially launched on 8 February 2010, in conjunction with Almarhum Tunku Abdul Rahman's 107th birthday, by former Finance Minister of Malaysia, YBM Tengku Razaleigh Hamzah at Memorial Tunku Abdul Rahman Putra, Kuala Lumpur, in an event graced by three generations of Almarhum Tunku's family members.

IDEAS' commitment to quality has received international recognition. On 18 January 2011, IDEAS was ranked as the 18th best new think tank globally and second best new think tank in Asia in a survey of 6,480 think tanks in 169 countries by University of Pennsylvania and United Nations University.

More information can be found on www.IDEAS.org.my

Glossary

Bumiputera	Bumiputera literally means the "son of the soil". The ethnic Malays are the main Bumiputera in Peninsular Malaysia. In Sabah, the main Bumiputera are ethnic Kadazan, Bajau and Murut, while in Sarawak they are Iban, Malay, Bidayuh and Melanau. In this paper, the term is mainly used to refer to ethnic Malays.
ETP	Economic Transformation Programme, which outlines a series of programmes to execute the New Economic Model (NEM)
GLC	Government-Linked Company or state-owned enterprise.
IDEAS	Institute for Democracy and Economic Affairs
MPM	Majlis Perundingan Melayu (Malay Consultative Council) is a coalition of 76 Malay NGOs.
NEM	New Economic Model, launched in 2010
NEP	New Economic Policy, launched in 1971
NEAC	National Economic Advisory Council, the body that drafted the NEM
RM	Ringgit Malaysia, the official currency of Malaysia
PEMANDU	Performance Management and Delivery Unit, which is a unit within the Prime Minister Department tasked with delivering the New Economic Model, Economic Transformation Programme, and Government Transformation Programme.
PERKASA	Pertubuhan Peribumi Perkasa Malaysia (PERKASA) is a Malay nationalist movement launched in March 2010 aiming to defend what they see as "Malay rights". It is a founding member of the Malay Consultative Council.
SRI	Strategic Reform Initiative – the reforms that the NEM says must be taken to transform the Malaysian economy.
TERAJU	Unit Peneraju Agenda Bumiputera (Bumiputera Agenda Leadership Unit), which is a unit within the Prime Minister's Department tasked with ensuring the Bumiputera "rights" is guaranteed.
UMNO	United Malays National Organisation, the main party in Malaysia's current ruling coalition
Vision 2020	The "big plan" framework announced by Tun Mahathir Mohamad, the fourth Prime Minister of Malaysia, aiming to turn Malaysia into a developed nation by 2020. This framework underpins all Malaysian policies today.

Impressum

Friedrich-Naumann-Stiftung für die Freiheit
Bereich Internationale Politik
Referat für Querschnittsaufgaben
Karl-Marx-Straße 2
D-14482 Potsdam

Aktuelle Informationen zur Projektarbeit der Stiftung finden Sie unter www.freiheit.org