The New Economic Model (NEM) 
Implication on the Higher Education Sector 

Institute of Strategic and International Studies 
ISIS Malaysia 
Presentation at MAREF – UM Public Lecture 14 October 2010
Section I

I. The Boiling Frog Syndrome of the Economy
   “Spiralling Downwards, Racing to the Bottom”

II. The New Economic Model (NEM)

III. Implication on Higher Education
We Have Been in the Middle Income Trap for Quite Some Time

It is a compelling reason to change to escape, but post Asian crisis, our growth rate has been mediocre

Average Annual GDP growth
Pre-crisis (1990-1997; %)

Post-crisis (2000-2008; %)

Our growth rate is now equivalent to that of our neighbouring countries
Deficiencies Preventing Us from Moving Forward
Fundamental reform is long overdue

We are trying to compete globally with significant handicaps
MACRO ISSUES

Controlled Pricing System
Undervaluation of resources results in gross misallocations

Education Sector
Failing to deliver required talent to the economy

Lower Income Group
(<RM 3,000) is falling behind and not realising its potential contribution

MARKET ISSUES

Corruption
High level perception

Talent
Insufficient numbers to drive growth

Private Sector
Short-sighted in business outlook

Rent-Seeking and Patronage
Pervasive behaviour

Labour Market
Overreliance creates distortion and impedes productivity

Public Sector
Ineffective and siloed impeding investment

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Major Concerns

• By potential investors:

  ➢ Available **talent and skills** not forthcoming from Malaysia. Potential firms are finding it hard to justify setting up operations in Malaysia due to the appropriate lack of skills being available

  ➢ Highly bureaucratic administration and overly **cumbersome red tape** increases the cost and time invest and do business in Malaysia comparatively

• By Investors currently operational in Malaysia and to a large extent the domestic participants:

  ➢ The inability of companies to be able to have the access to appropriate skilled labour and talent both foreign and local

  ➢ The R&D capabilities are limited in Malaysia to be able to move up the value chain. Insufficient numbers of quality researchers have led to a low priority given to R&D activities hence the low amount of R&D expenditure reported
Talent is Lacking and Wanting
Human capital has been leaving the country and we are not nurturing enough local talent.

Number of skilled expatriates in Malaysia
2000-2008; no. of workers

Graduates from IPTA and IPTS in degree programme
2002-2007; no. of graduates

Graduates from technical and vocational schools
1999-2009; no. of graduates
Present Malaysian Workforce and Jobs Not Conducive for Growth

Educational profile of workforce and jobs are cause for concern going forward

Jobs: Only 25% of Malaysian jobs are in the higher skilled bracket. Developed nations have higher proportion.

Malaysia: 80% of workforce educated up to SPM level only.

Dominance of Low Skill Levels Across Almost All Industries
This denotes the daunting work to upgrade skills to move up the value chain.
We are Not Innovating but We Need to for Sustainable Growth
Low R&D capabilities compared to the rest of the world

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We Continue to Lose Out to Our Asian Neighbours
We spend less on scientific research

<table>
<thead>
<tr>
<th>Country scientific infrastructure ranking</th>
<th>1997</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ranking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>28</td>
<td>6</td>
</tr>
<tr>
<td>Indonesia</td>
<td>35</td>
<td>25</td>
</tr>
<tr>
<td>Malaysia</td>
<td>24</td>
<td>28</td>
</tr>
<tr>
<td>India</td>
<td>29</td>
<td>29</td>
</tr>
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</table>

**Ranking based out of 55 countries**

Source: DOS Malaysia, World Bank and IMD, BNM

Expenditure on R&D (% of GDP)

Source: www.isis.org.my

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Section II

I. The Boiling Frog Syndrome of the Economy

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The Prime Minister’s Vision - Transforming Malaysia

The Two Pillars of the National Transformation Programme

1Malaysia – People First, Performance Now
Preservation and Enhancement of Unity in Diversity

10th & 11th Malaysia Plan Roll-Out
Macroeconomic growth targets & expenditure allocation
Implementation of Government’s Development Programmes

1Malaysia
People First, Performance Now

Government Transformation Plan (GTP)
Effective Delivery of Government Services

Economic Transformation Programme (ETP)
High Income Model
A High Income, Inclusive And Sustainable Nation

Preservation and Enhancement of Unity in Diversity
New Economic Model (NEM)

HIGH INCOME

Targets
USD15,000 - USD20,000 per capita by 2020

Rakyat
Quality of Life

Enables all communities to fully benefit from the wealth of the country

Meets present needs without compromising future generations

INCLUSIVENESS

SUSTAINABILITY

Economic Transformation Programme (ETP)

8 Strategic Reform Initiatives (SRIs)

1. Developing Quality Workforce
2. Competitive Domestic Economy
3. Strengthening Public Sector
4. Transparent & Market Friendly Affirmative Action
5. Building knowledge base infrastructure
6. Enhancing Sources of Growth
7. Ensuring Sustainability of Growth
8. Re-energising Private Sector

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**Strategic Reform Initiatives (1/2)**

**Policy Purposes and Targets**

**SRI 1**
*Re-energising the private sector to lead growth*
1. Target high value added product and services
2. Remove barriers and cost to doing business
3. Create eco-system for entrepreneurship and innovation
4. Encourage efficiency through healthy competition
5. Promote SME growth
6. Nurture regional champions

**SRI 2**
*Developing quality workforce and reducing dependency on foreign labour*
1. Increase local talent over time
2. Re-skill the existing labour force
3. Retain and Access global talent
4. Remove labour market distortions constraining wage growth
5. Reduce reliance on foreign labour

**SRI 3**
*Creating a competitive domestic economy*
1. Improve economic efficiency through competition
2. Build entrepreneurship
3. Remove market distortions leading to misallocation of resources

**SRI 4**
*Strengthening the public sector*
1. Improve decision-making process
2. Improve service delivery
3. Reduce ‘friction costs’
4. To facilitate smooth transition from periods of disruption
5. Strengthen public finance management

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Strategic Reform Initiatives (2/2)
Policy Purposes and Targets

SRI 5
Transparent and market-friendly affirmative action
1. Reduce income disparity
2. Create market friendly affirmative action
3. Narrow regional differences
4. Encourage reward on the basis of performance
5. Promote equal and fair access to opportunities

SRI 6
Building the knowledge base infrastructure
1. Create ecosystem for entrepreneurship
2. Promote an environment for innovation
3. Establish stronger enabling institutions

SRI 7
Enhancing the sources of growth
1. Create value from first mover and other comparative advantages
2. Develop greater integration between products
3. Create new markets
4. Build scale of industries and production networks for specialisation
5. Harness innovation potential
6. Integrate real sector industries with financial services

SRI 8
Ensuring sustainability of growth
1. Preserve natural resources
2. Maximise economic value to Malaysia of our natural resources
3. Meet international commitments
Section II

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Role of Higher Education in the New Economic Model - More reforms?

<table>
<thead>
<tr>
<th>Important Issues</th>
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<tbody>
<tr>
<td>Producing skilled human capital needed by market – <em>how far the higher education sector is willing to be driven primarily by market demand</em></td>
</tr>
<tr>
<td>Higher education as the source for R&amp;D and innovation – <em>how much investment is needed, how to forge closer links with industries and is the environment encourages innovation</em></td>
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<td>Large budget allocation to the education sector but the outcome is below expectation – <em>how to improve outcome of the education (in particular higher education) sector</em></td>
</tr>
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<td>Rising the income level - <em>can the higher education sector produce human capital that is competitive with high skills who can earn high income and how to ensure low income groups have access to quality education which will help improve their livelihood</em></td>
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<td>Higher Education as the key driver for the NEM – <em>can it attract the best talent for producing human capital, innovation that will lead growth, ensure inclusiveness and promote sustainability</em></td>
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<td>Inculcating entrepreneurial mindset and encourage participation of young talents in entrepreneurship – <em>how can it eliminate risk aversion and promote entrepreneurship particularly towards the services sector and exploration in niche areas and high value added activity</em></td>
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<td>Promoting ethical conduct – <em>can the higher education sector instill the sense of integrity, social responsibility and moral obligations in our pursuit of high income in line with NEM’s other goals of inclusiveness and sustainability</em></td>
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<td>Increase links between Malaysia’s higher education sector with that of other countries – <em>can it also forge closer links with top foreign universities and institutions based on collaboration and knowledge sharing</em></td>
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<td>Supplying talents to local and foreign companies with global reach – <em>Can the higher education sector produce human capital with the necessary skills to work in an environment with global best practices</em></td>
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Thank you