



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

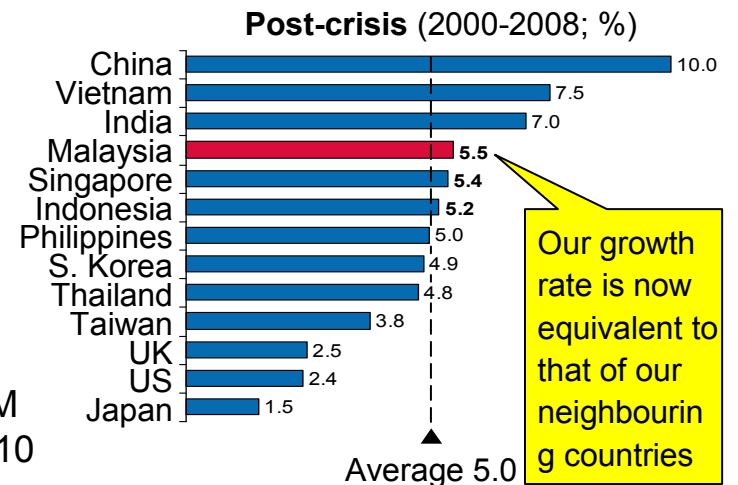
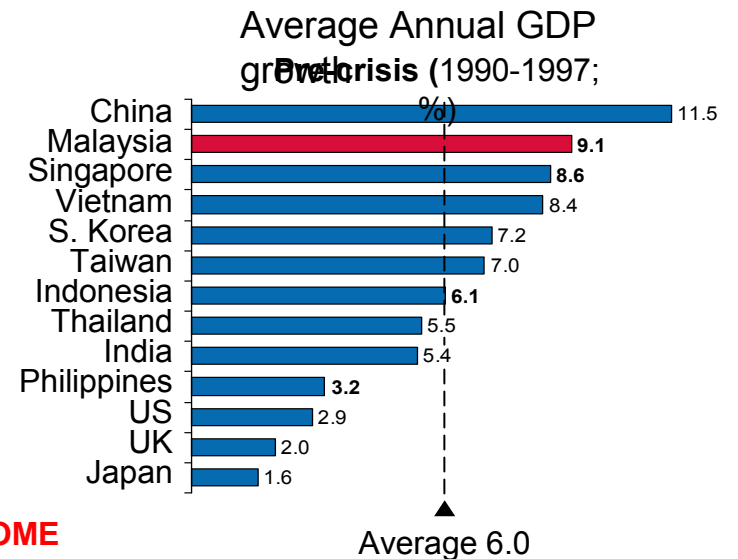
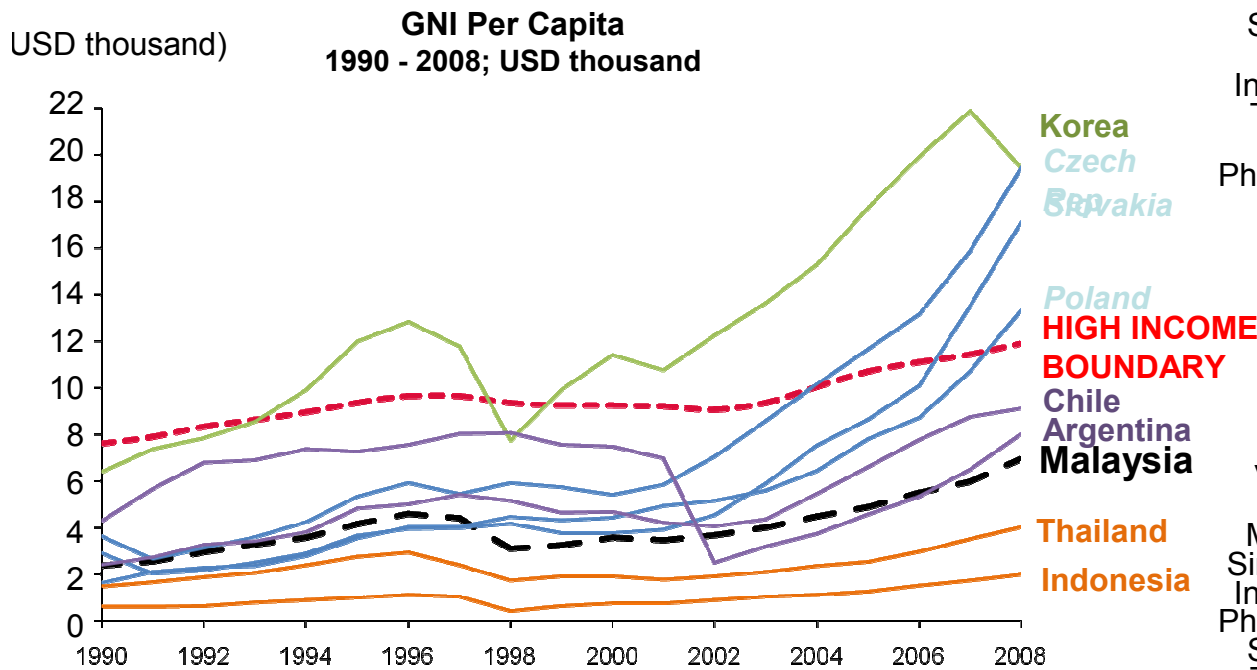
I. The Boiling Frog Syndrome of the Economy “Spiralling Downwards, Racing to the Bottom”

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



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

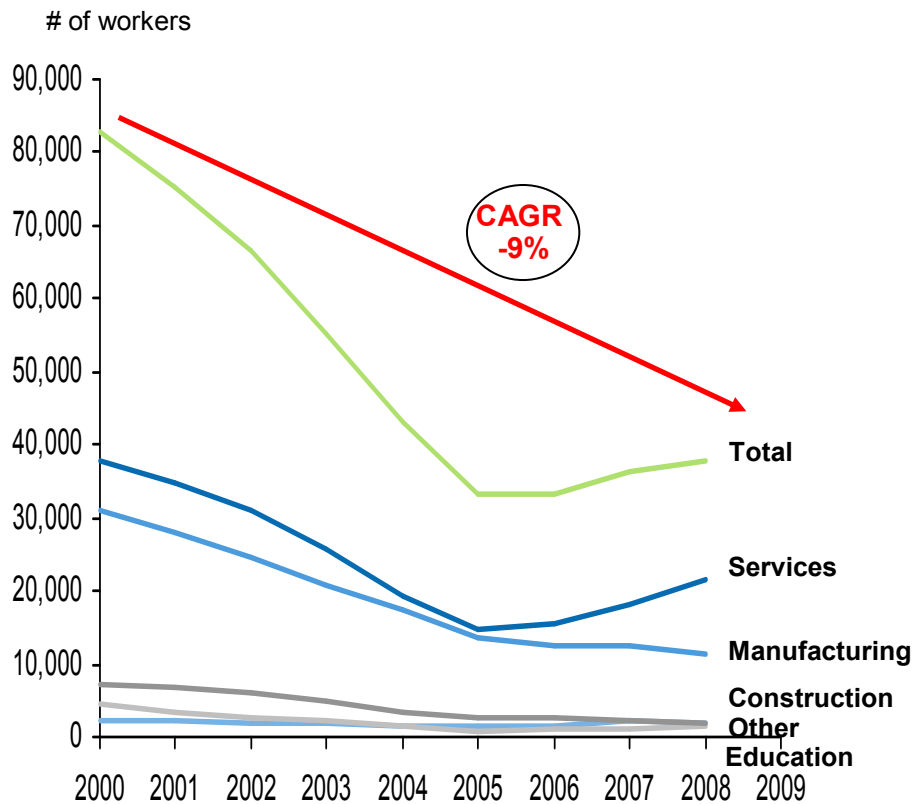
- *By Investors currently operational in Malaysia and to a large extent the domestic participants:*

- 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

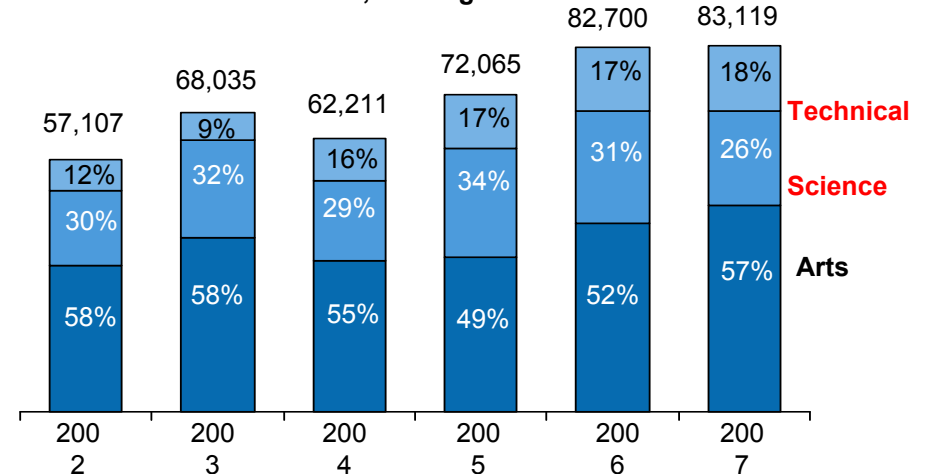
Talent is Lacking and Wanting

Human capital has been leaving the country and we are not nurturing enough local talent

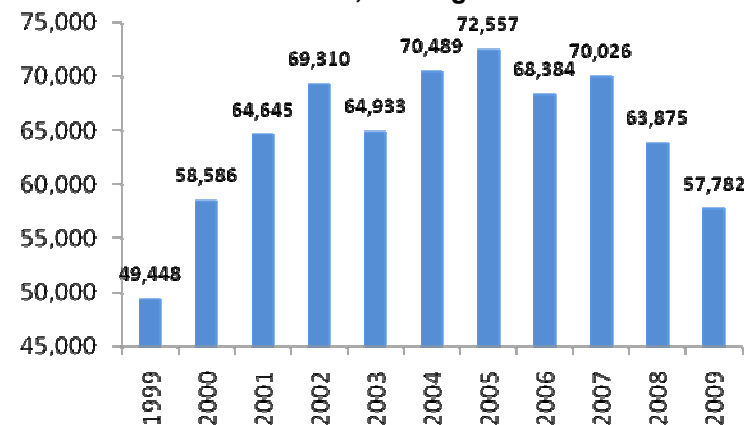
**Number of skilled expatriates in Malaysia
2000-2008; no. of workers**



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



**Graduates from technical and vocational schools
1999-2009; no. of graduates**



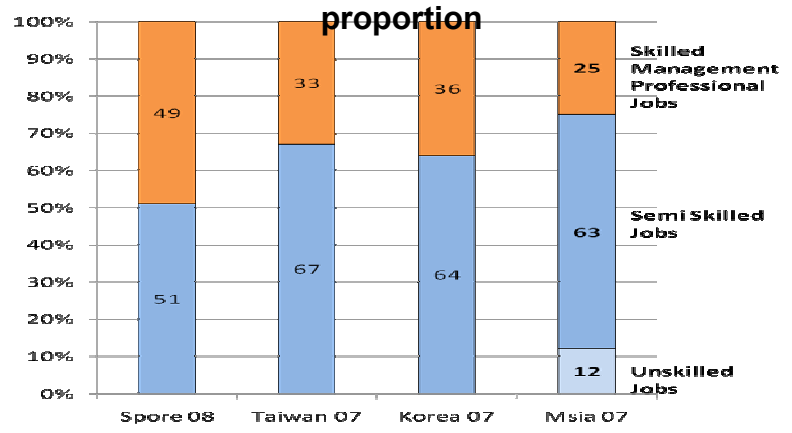
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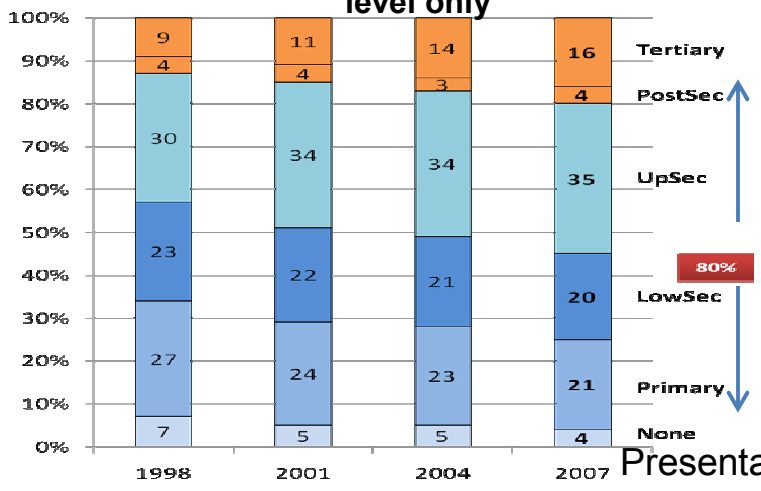
Present Malaysian Workforce and Jobs Not Conducive for Growth

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

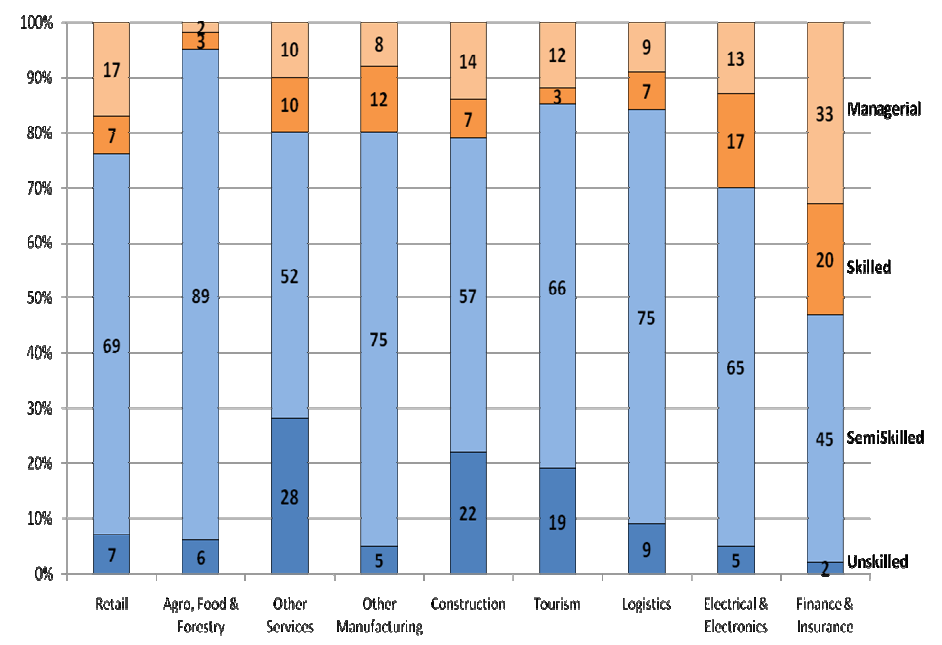
Jobs : Only 25% of Malaysian jobs are in the higher skilled bracket. Developed nations have higher proportion



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



Malaysian Labour force 2007 in thousands



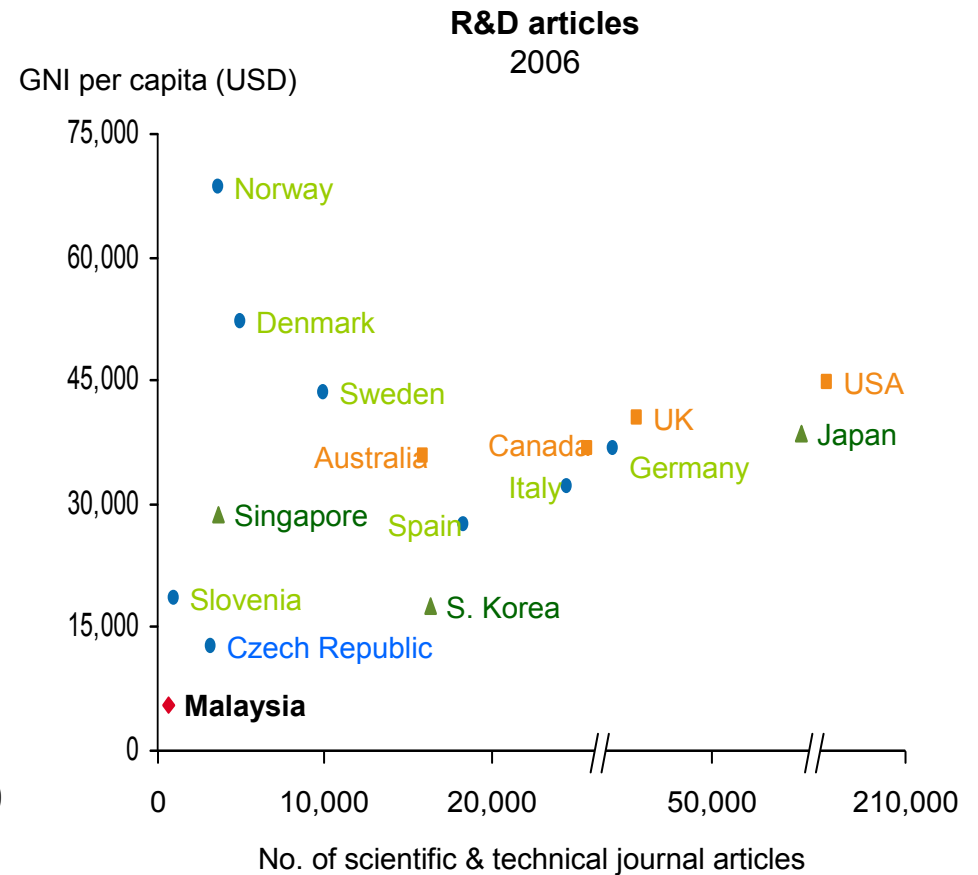
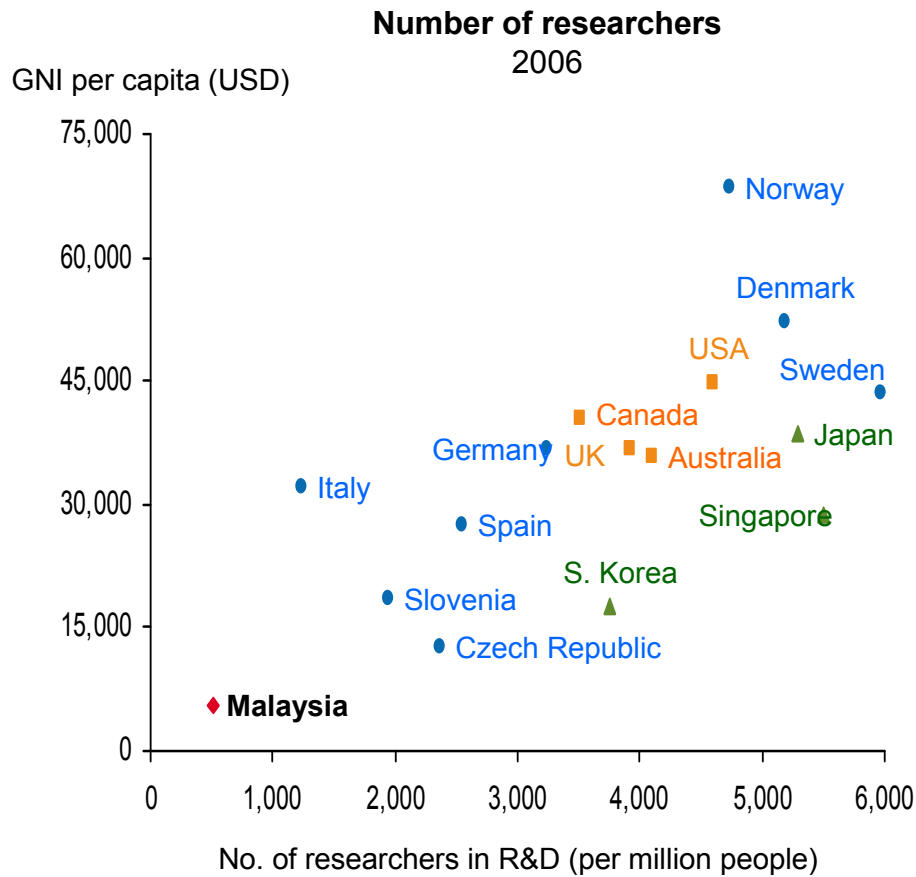
Dominance of Low Skill Levels Across Almost All Industries

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

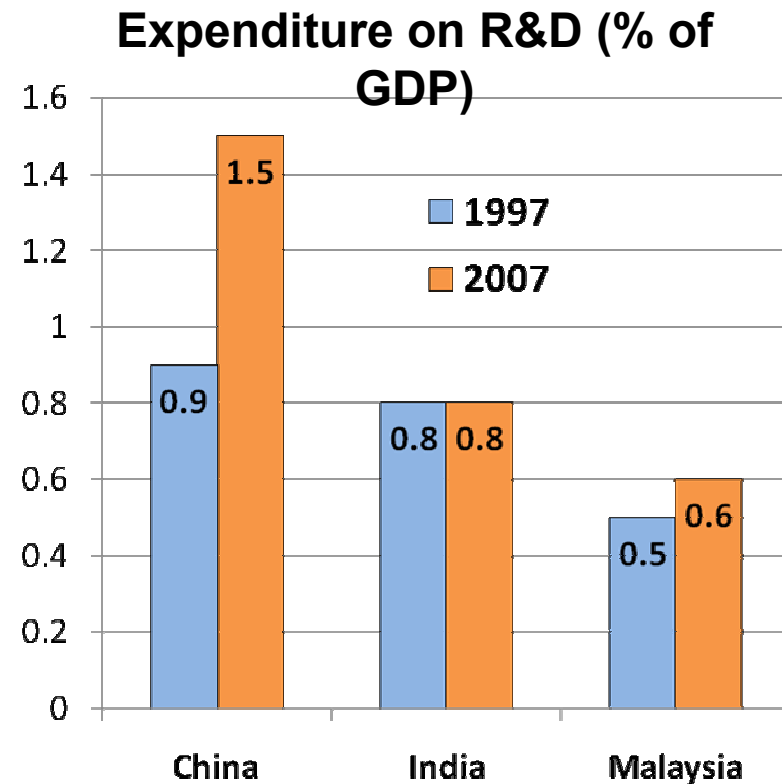




We Continue to Lose Out to Our Asian Neighbours

We spend less on scientific research

Country scientific infrastructure ranking		
Ranking	1997	2008
China	28	6
Indonesia	35	25
Malaysia	24	28 ↓
India	29	29



Ranking based out of 55 countries

Source : DOS Malaysia, World Bank and IMD, BNM

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Section II

I. The Boiling Frog Syndrome of the Economy

II. The New Economic Model (NEM)

III. Implication on Higher Education



The Prime Minister's Vision - Transforming Malaysia

The Two Pillars of the National Transformation Programme



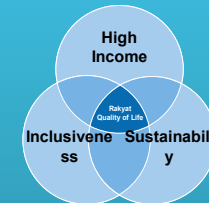
1Malaysia – People First, Performance Now
Preservation and Enhancement of Unity in Diversity

Government Transformation Plan (GTP)



Effective Delivery of Government Services

Economic Transformation Programme (ETP)



New Economic Model

A High Income,

Inclusive

And Sustainable Nation



10th & 11th Malaysia Plan Roll-Out

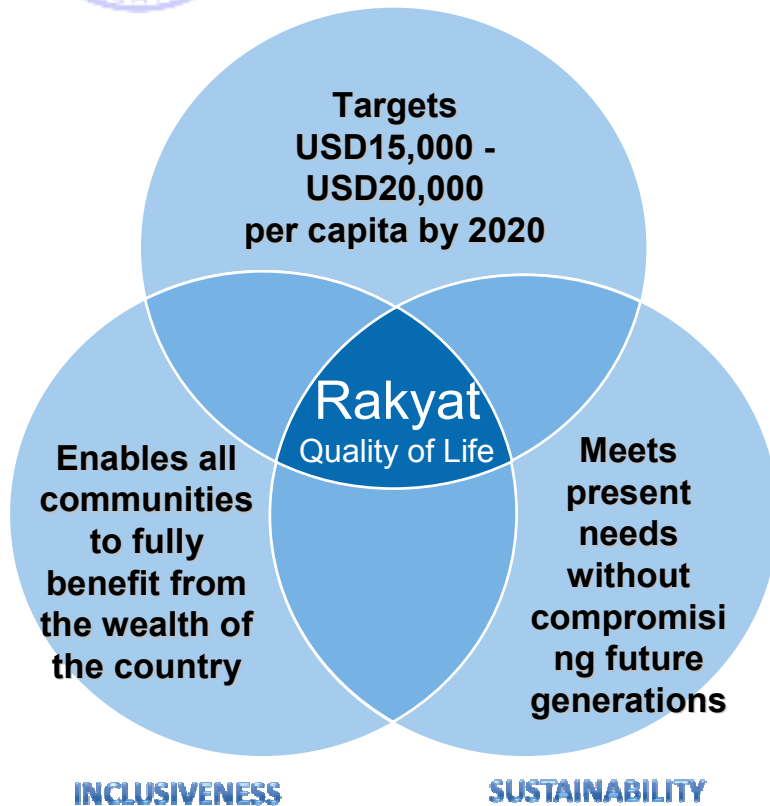
Macroeconomic growth targets & expenditure allocation

Implementation of Government's Development Programmes

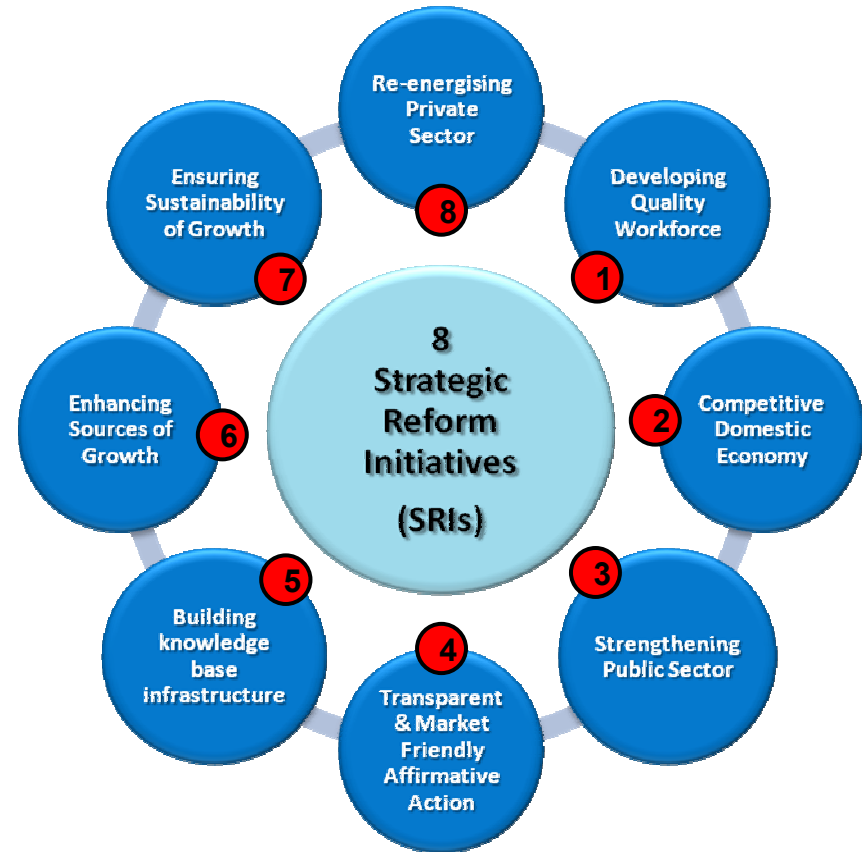


New Economic Model (NEM)

HIGH INCOME



Economic Transformation Programme (ETP)



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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



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

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Role of Higher Education in the New Economic Model

- More reforms?

Important Issues

Producing skilled human capital needed by market – *how far the higher education sector is willing to be driven primarily by market demand*

Higher education as the source for R&D and innovation – *how much investment is needed, how to forge closer links with industries and is the environment encourages innovation*

Large budget allocation to the education sector but the outcome is below expectation – *how to improve outcome of the education (in particular higher education) sector*

Rising the income level - *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*

Higher Education as the key driver for the NEM – *can it attract the best talent for producing human capital, innovation that will lead growth, ensure inclusiveness and promote sustainability*



Role of Higher Education in the New Economic Model

- More reforms?

Important Issues

Inculcating entrepreneurial mindset and encourage participation of young talents in entrepreneurship – *how can it eliminate risk aversion and promote entrepreneurship particularly towards the services sector and exploration in niche areas and high value added activity*

Promoting ethical conduct – *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*

Increase links between Malaysia's higher education sector with that of other countries – *can it also forge closer links with top foreign universities and institutions based on collaboration and knowledge sharing*

Supplying talents to local and foreign companies with global reach – *Can the higher education sector produce human capital with the necessary skills to work in an environment with global best practices*



Thank you