Panel Discussion

National Competitiveness Agenda : Malaysia

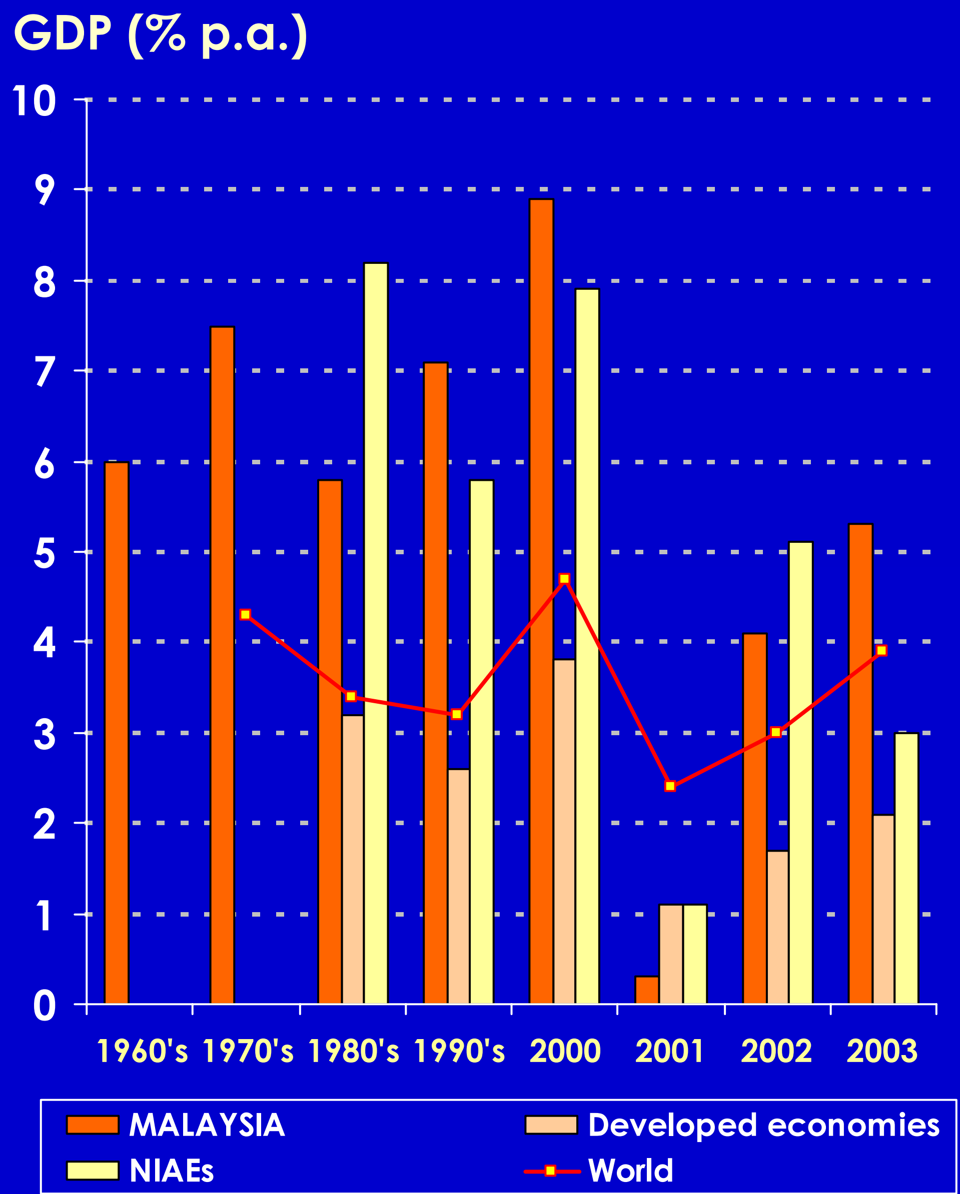
Economic Planning Unit
Prime Minister's Department
Putrajaya, Malaysia

1 July 2004

OUTLINE

- Malaysia's past socio-economic development record
- Malaysia at a cross road
- Challenges faced by Malaysia
- Measures to address challenges

NOTABLE PAST ECONOMIC ACHIEVEMENTS

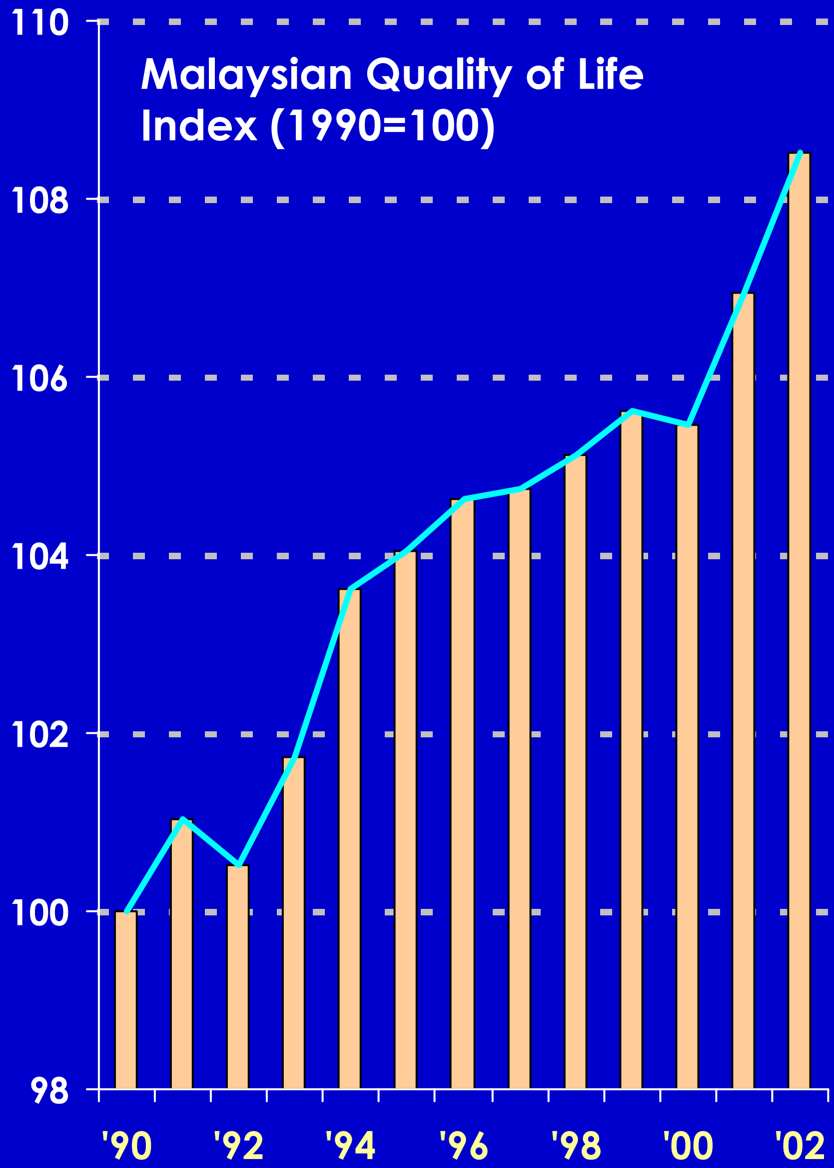


Source : WEO/IMF, Malaysian Department of Statistics

Main Economic Indicators

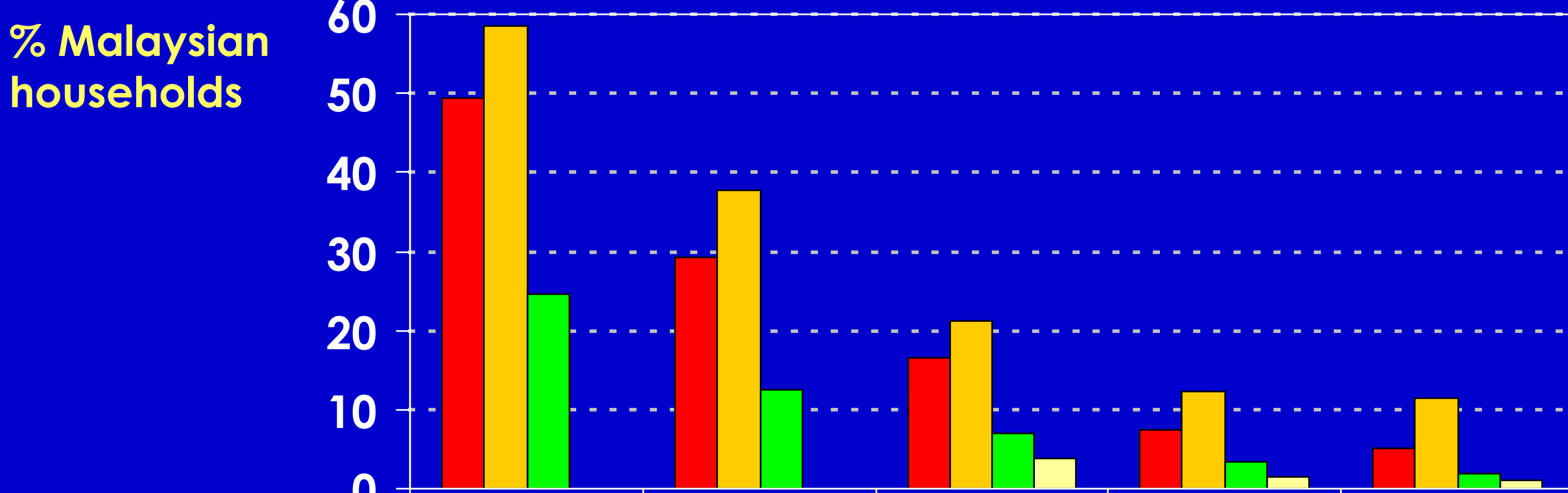
	1970	2003
• GNP per capita		
RM	1,132	14,592
US$	368	3,840
• Unemployment (%)	*7.4*	*3.5*
• Inflation (%)	*1.9*	*1.2*
• Fed. Govt. account (% to GNP)	*-4.0*	*-5.7*
• Current a/c of BOP (% to GNP)	*0.2*	*10.1*

IMPROVED QUALITY OF LIFE



	1970	2003
• Life expectancy (in years) :		
– Male	61.6	71.0
– Female	65.6	75.5
• Infant mortality rate / 1000	39.4	5.6
• Population / Doctor ratio	4,302	1,395
• Literacy rate (%)	58	94
• Telephones / 1000 population [1]	17	620
• Utilities :		
• Pipe water (% pop.)	48	93
• Electricity (% of h/h)	44	94

NOTABLE SUCCESS IN POVERTY ERADICATION EFFORTS



	1970	1980	1990	1999	2002
Total	49.3	29.2	16.5	7.5	5.1
Rural	58.6	37.7	21.1	12.4	11.4
Urban	24.6	12.6	7.1	3.4	2
Hard-core poor			3.9	1.4	1

Note : Poverty Line Income (PLI) for 2002 was RM529 (USD139) per month in Peninsular Malaysia (household size 4.6) ; RM690 (USD182) in Sabah (household size 4.9) ; and RM600 (USD158) in Sarawak (household size 4.8). Hardcore poverty is estimated using half of PLI.

MALAYSIA IS A VERY OPEN ECONOMY

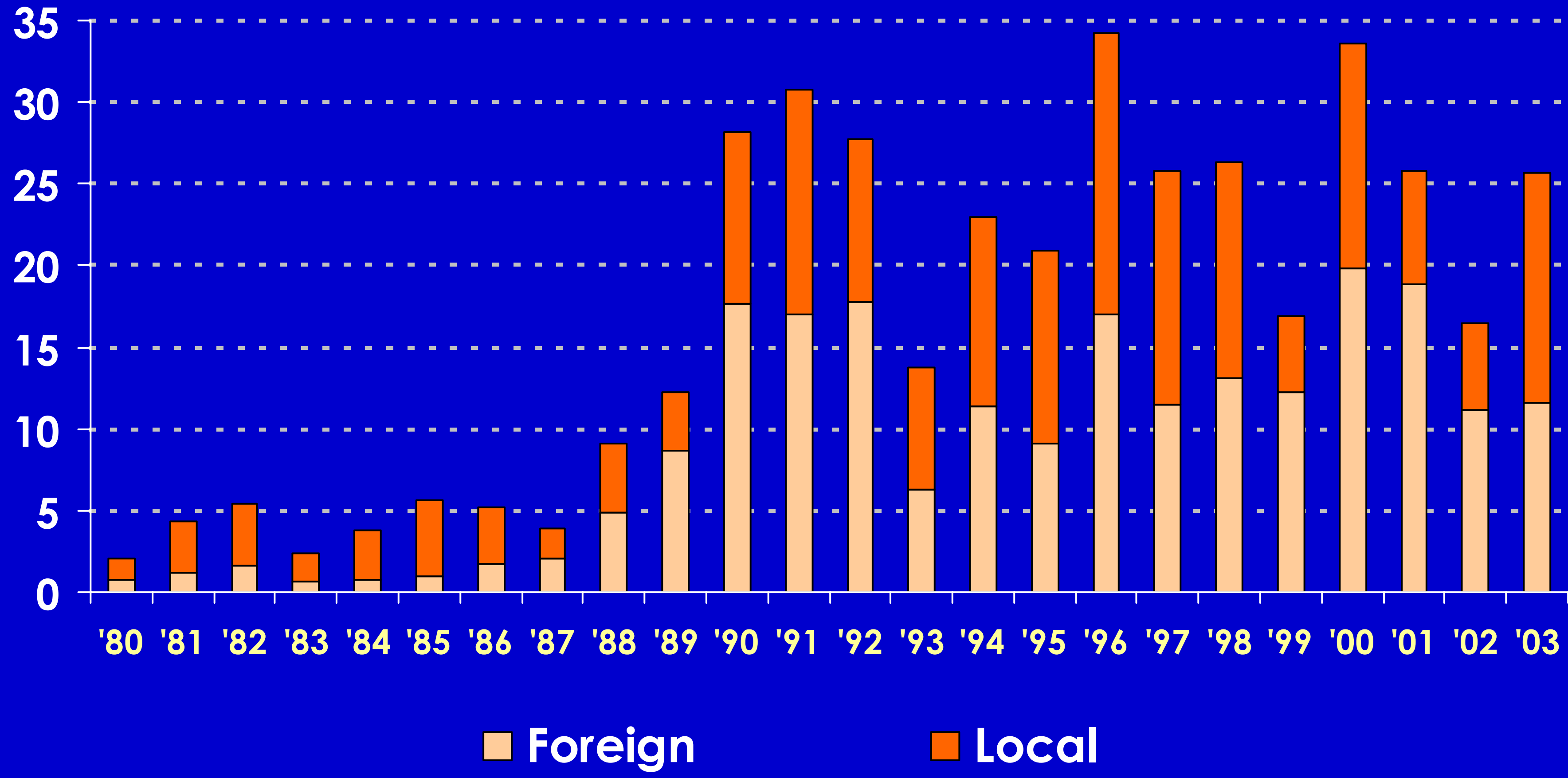
Demand Side (% to GDP in nominal terms*)

	1970	1980	1990	2000	2003
Consumption	75.2	68.6	65.6	52.7	57.7
Private	60.2	52.3	51.8	42.4	43.7
Public	15.0	16.3	13.8	10.4	13.9
Investment	17.0	30.4	33.0	25.6	22.1
Private	11.4	18.8	21.9	12.8	7.8
Public	5.6	11.6	11.2	12.7	14.3
External sector	81.9	113.0	146.9	228.9	207.6
Exports	43.0	57.7	74.5	124.4	114.3
Imports	38.9	55.3	72.4	104.5	93.3
GDP	100.0	100.0	100.0	100.0	100.0

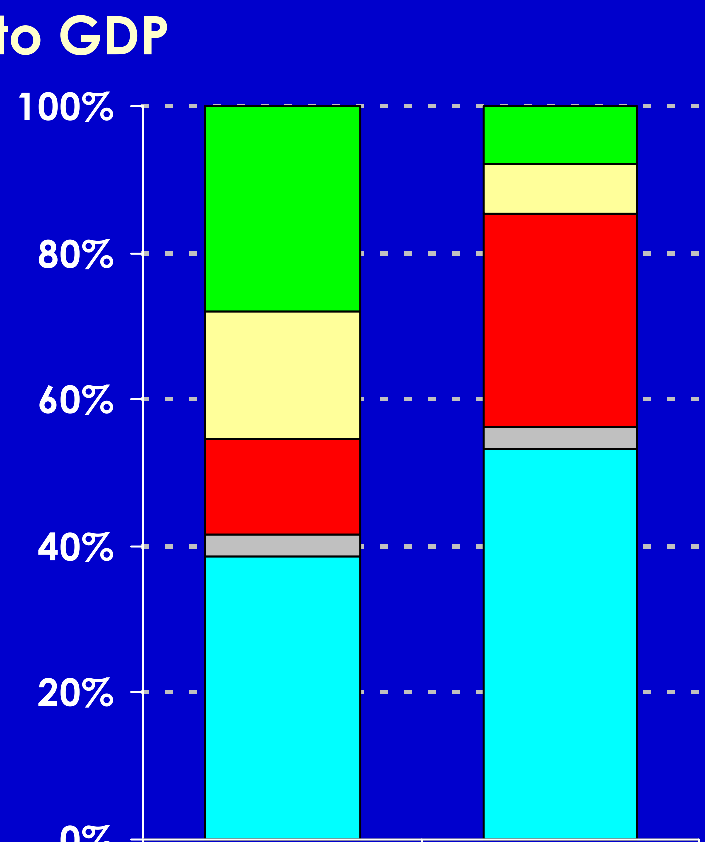
Note : * Exclude change in stocks

MALAYSIA BENEFITED FROM INFLOW OF PRIVATE LONG-TERM CAPITAL

Capital Investment In Approved Manufacturing Projects (RM billion)

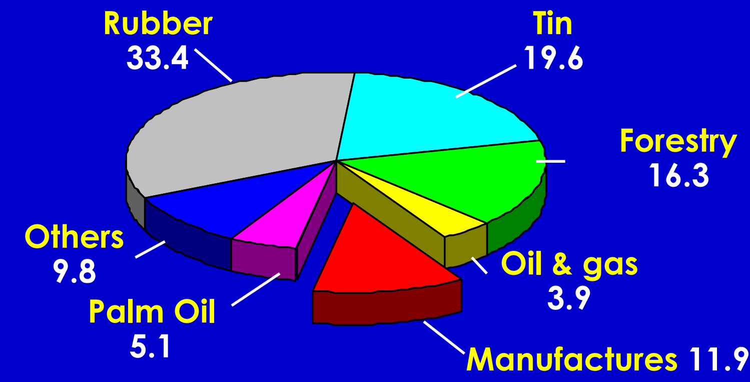


CHANGE IN STRUCTURE OF PRODUCTION

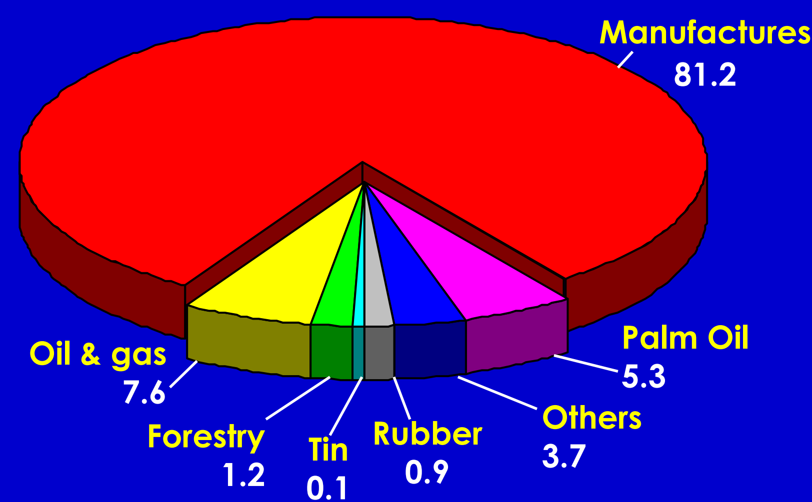


	1970	2003
Agriculture	26.7	8.4
Mining	16.5	7.2
Manufacturing	12.2	30.9
Construction	2.9	3.2
Services	36.7	56.4

Note : Excluding import duties and bank service charges



1970
Merchandise exports : US$1.68 bn



2003
Merchandise exports : US$100.61 bn

IMD WORLD COMPETITIVENESS

Overall Rankings

		2000	2001	2002	2003	2004
1.	USA	1	1	1	1	1
2.	Singapore	2	3	8	4	2
3.	Canada	8	9	7	6	3
4.	Australia	11	12	10	7	4
5.	Iceland	10	10	11	8	5
6.	Hong Kong	9	4	13	10	6
7.	Denmark	12	15	6	5	7
8.	Finland	6	5	3	3	8
9.	Luxembourg	3	2	2	2	9
10.	Ireland	5	7	9	11	10
11.	Sweden	14	11	12	12	11
12.	Taiwan	17	16	20	17	12
13.	Austria	18	14	15	14	13
14.	Switzerland	7	8	5	9	14
15.	Netherlands	4	6	4	13	15
16.	Malaysia	26	28	24	21	16
17.	Norway	16	19	14	15	17
18.	New Zealand	20	21	18	16	18
19.	Zhejiang	-	-	-	38	19
20.	Bavaria	-	-	-	31	20

WORLD COMPETITIVENESS – ECONOMIC EFFICIENCY

ECONOMIC PERFORMANCE, 2004

1.	U.States	90.5
2.	China	79.2
3.	Luxembourg	73.0
4.	Germany	69.0
5.	Singapore	66.0
6.	Ireland	65.8
7.	Netherlands	64.4
8.	Canada	63.6
9.	Thailand	63.1
11.	Hong Kong	62.7
12.	India	62.6
13.	France	62.1
14.	U.K.	61.7
15.	Iceland	61.6
16.	Malaysia	59.5
17.	Japan	58.7
18.	New Zealand	58.4
19.	Australia	58.0
24.	Taiwan	56.1
49.	Korea	43.0

- Malaysia's ranking improved to 16th position from the 25th in 2003

GOVERNMENT EFFICIENCY, 2004

1.	Singapore	84
2.	Australia	82
3.	Hong Kong	80
4.	Finland	78
5.	Denmark	77
6.	Canada	77
7.	Iceland	75
8.	Chile	72
9.	Luxembourg	71
10.	U.S.	71
11.	Switzerland	70
12.	New Zealand	69
13.	Ireland	69
16.	Malaysia	68
18.	Taiwan	66
20.	Thailand	64
21.	China	62
33.	India	51
34.	Germany	50
36.	Korea	47

- Malaysia's ranking declined to the 16th position from the 14th in 2003

WORLD COMPETITIVENESS – ECONOMIC EFFICIENCY

BUSINESS EFFICIENCY, 2004

1.	U. States	87
2.	Hong Kong	86
3.	Zhejiang	84
4.	Australia	81
5.	Iceland	81
6.	Singapore	80
7.	Taiwan	79
8.	Canada	78
9.	Denmark	77
10.	Finland	77
11.	Ireland	76
12.	Luxembourg	73
13.	Malaysia	71
21.	U.K.	61
22.	India	60
23.	Thailand	60
29.	Korea	53
34.	Germany	49
35.	China	48
37.	Japan	48

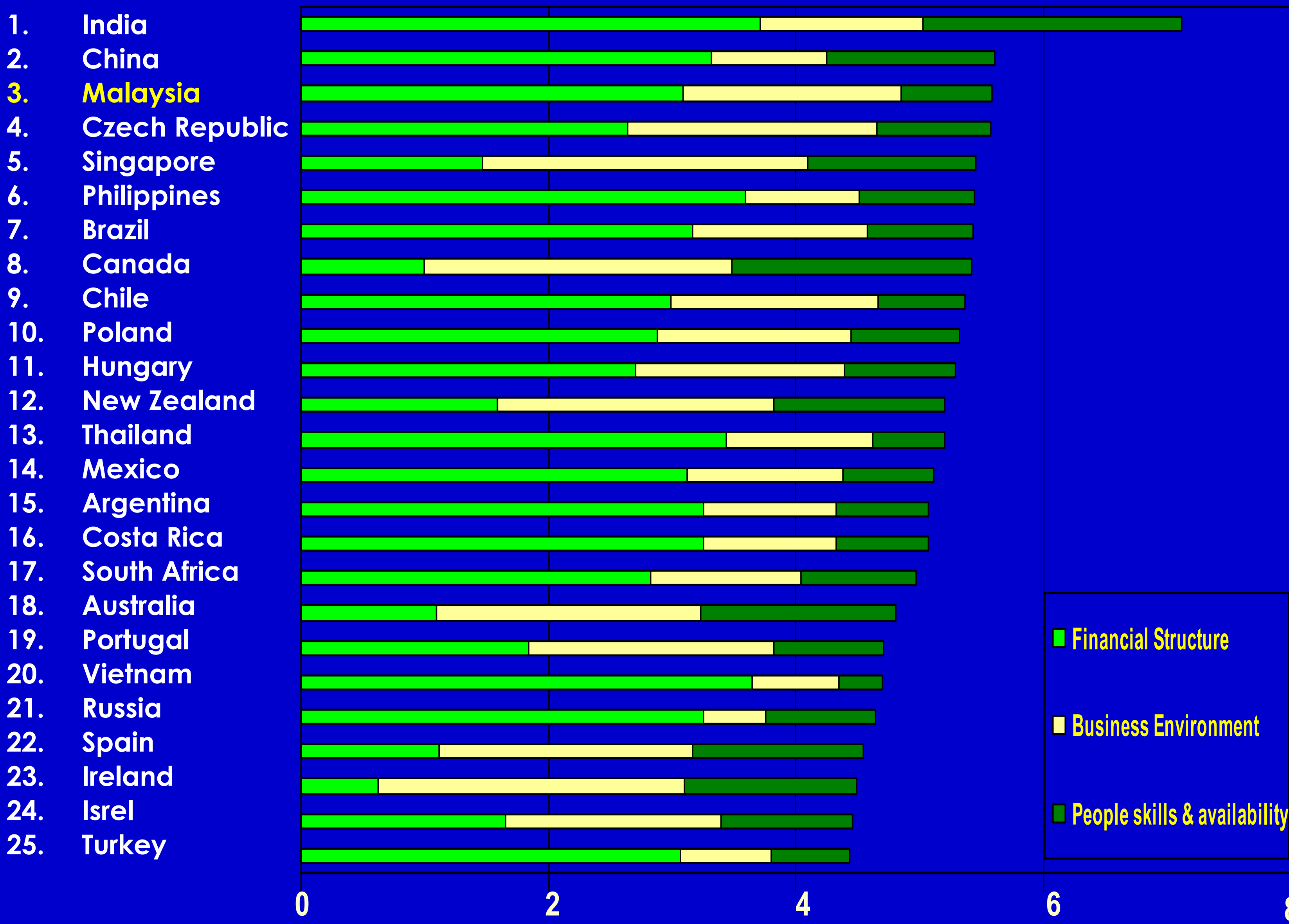
- Malaysia's ranking improved to the 13th position from the 18th in 2003

INFRASTRUCTURE, 2004

1.	U.States	100
2.	Japan	82
3.	Switzerland	81
4.	Sweden	78
5.	Denmark	78
6.	Canada	76
7.	Finland	75
8.	Iceland	74
9.	Singapore	74
10.	Germany	74
11.	Norway	73
16.	France	70
20.	Taiwan	64
22.	Hong Kong	62
24.	U.K.	60
25.	Ireland	59
26.	New Zealand	55
27.	Korea	54
30.	Malaysia	53
41.	China	41

- Malaysia's ranking improved to the 30th position from the 31st in 2003

A.T.Kearney Offshore Location Attractiveness Index 2004



- India is the top offshore location based on the 2004 offshore index
- Malaysia's ranking in the third position

Incentives Benchmarking

Countries are addressing their competitiveness gaps through a variety of incentives – Malaysia needs to focus on three categories

Country	Financial Cost		People		Environment	
	Tax Incentives(1)	Infrastructure Incentives(2)	Grants & Funding(3)	Employment of Foreigners(4)	Process Orientation(5)	Environment Development(6)
Australia	1	2	4	5	5	4
Brazil	1	3	3	3	2	3
Chile	3	5	4	3	3	3
China	5	4	3	4	5	3
Czech Rep	5	5	5	2	3	3
India	5	2	1	4	3	3
Ireland	3	5	4	2	5	4
Malaysia	5	2	3	5	3	4
N. Zealand	1	1	4	5	5	5
Philippines	5	2	3	5	3	3
Singapore	3	5	4	5	5	5
Thailand	5	2	1	4	4	3
Vietnam	5	2	1	2	3	2

Legend: 5 = Most Attractive; 1 = Least Attractive

Note: (1) Includes Corporate Tax rates, tax holidays, import / export duties;
(2) Includes ready to move in/ subsidized facilities and utilities;
(3) Includes govt. backed VC funding, R&D and training grants for industry development;
(4) Includes ease of employment of foreign workers;
(5) Includes single window concept, low approval times;
(6) Includes quality of infrastructure, quality of living standard

Value of Shared Services and Outsourcing

- **The potential: Global spending on Business Process Outsourcing (BPO)**
  - **Reached RM 1.54 trillion (USD400 billion) in 2003**
  - **Will grow to RM 2.59 trillion (USD700 billion) in 2008**

Source: International Data Corp (IDC)

- **Malaysia's MSC uniquely positioned to capture a niche by leveraging on the following**
  - **Build on Malaysia's third place ranking globally, (behind India and China) in AT Kearney's 2004 Offshore Location Attractiveness Index. Mechanism for this being implemented**

- **Already, 49 shared services/outsourcing companies in the MSC generate 8,000+ jobs which include:**

Scicom (local) – 1,050 jobs

HSBC – 1,100 jobs

Shell – 1,058 jobs

MAIN ISSUES

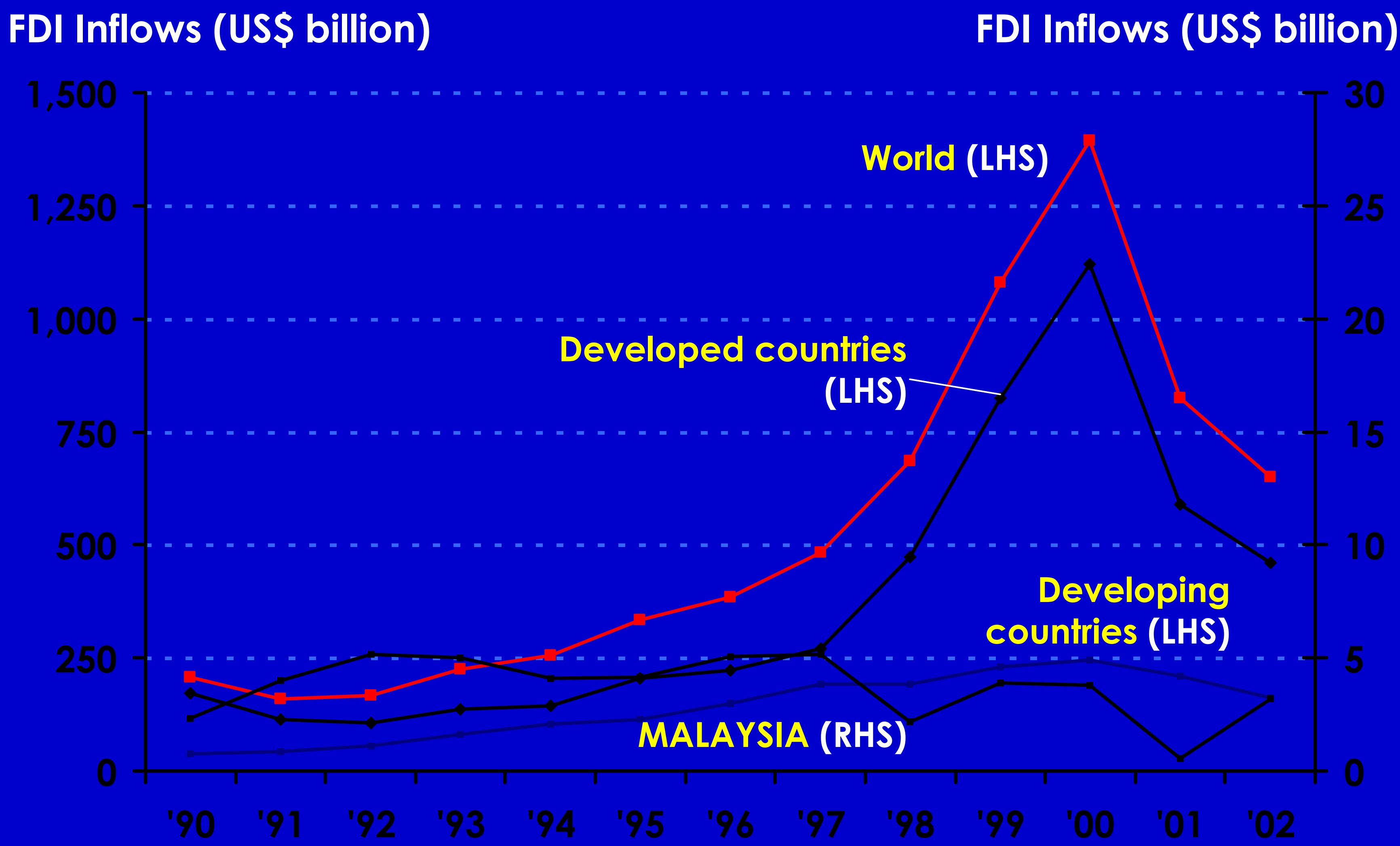
- Moderate growth of productivity in recent years
- Lower levels of FDI inflows in recent years due to intense competition
- Malaysian firms are under-performing in terms of innovation
- Skills shortages remain a main concern
- Investment climate is favorable but not good enough to sustain high growth
- Malaysia scores well on government effectiveness but is weak on regulatory quality

MALAYSIA AT A CROSS ROAD : PRODUCTIVITY PERFORMANCE

Past growth still depended on factor inputs, future sources of growth must come from productivity

	Labour	Capital	Total Factor Productivity	GDP
• **1971-1990**				
– % contribution	2.3	3.2	1.2	6.7
– % to Total	34.3	47.8	17.9	100.0
• **1991 - 2000**				
– % contribution	1.7	3.5	1.9	7.1
– % to Total	23.9	49.3	26.8	100.0
• **2001 - 2005**				
– % contribution	1.4	1.7	1.1	4.2
– % to Total	32.6	40.0	27.4	100.0

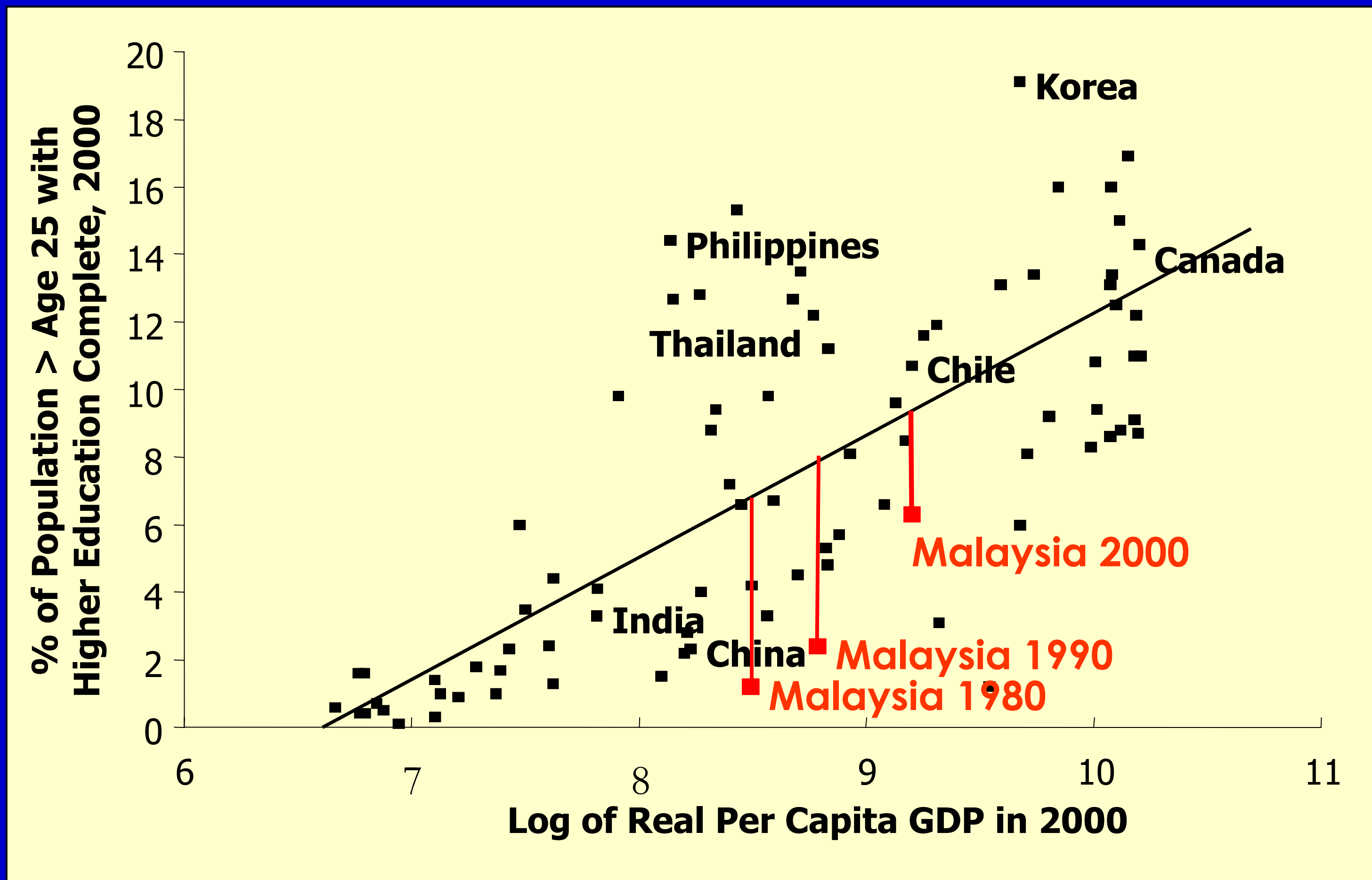
MALAYSIA AT A CROSS ROAD : MALAYSIA FACES INTENSE COMPETITION FOR FDI



Source : UNCTAD, Malaysian Department of Statistics

MALAYSIA AT A CROSS ROAD : SKILLS SHORTAGES

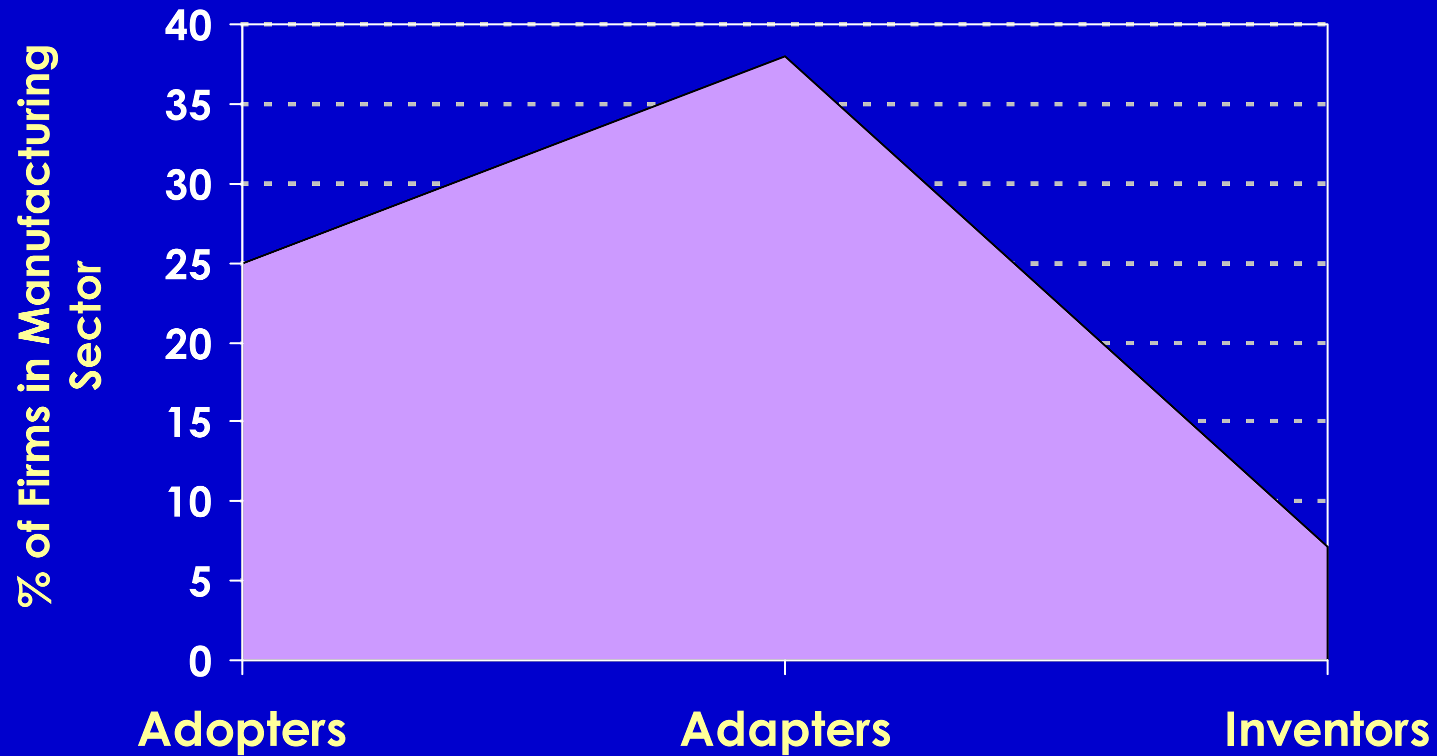
Malaysia's higher education stocks lag behind its level of development despite its past massive investment in tertiary education



Source : World Bank

MALAYSIA AT A CROSS ROAD : INNOVATION READINESS

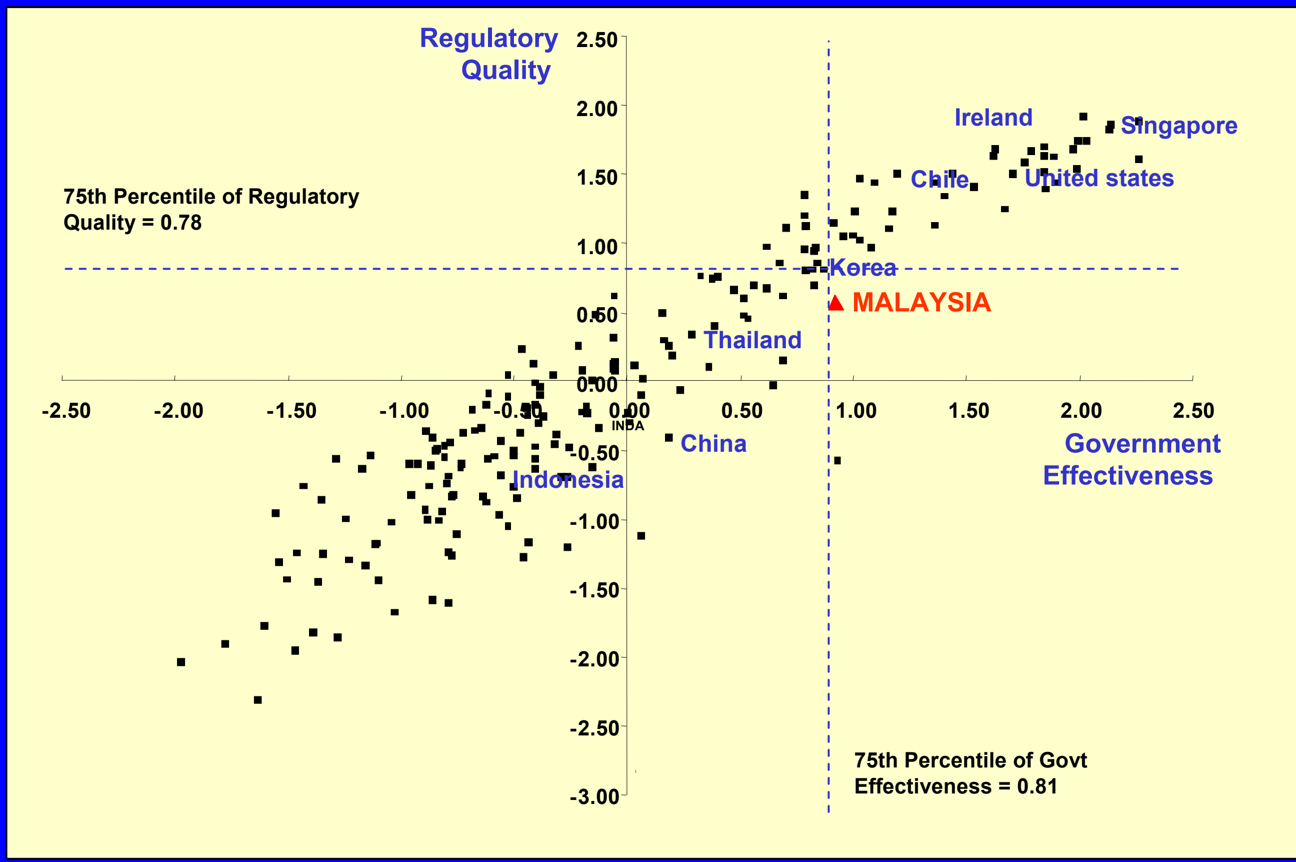
- Malaysian firms are technologically active especially in firm-firm networking and clusters
- But productivity of innovation activities is still low



Source : Productivity and Investment Climate Survey 2002, EPU/World Bank

MALAYSIA AT A CROSS ROAD : REGULATORY BURDEN IS A CONCERN

Malaysia does well in assessments of overall government effectiveness, but it fares worse in assessments of regulatory quality



Source : World Bank

CHALLENGES TO LONG-TERM GROWTH

MAIN ISSUES

- Changing rules of competition - competitiveness depends on knowledge rather than factor inputs
- Era of intense liberalisation and globalization – WTO, FTAs, e-commerce, global supply chain
- Emergence of new global players – China and India
- MALAYSIA is sandwiched between low-wage and high-tech economies

NATIONAL VISION POLICY, 2001-2010

- Theme : Building a Resilient and Competitive Nation
- Overriding objective : National Unity
- Aims to establish a progressive and prosperous Bangsa Malaysia
- Maintains the key strategies of the New Economic Policy (eradicating poverty and restructuring of society) and the National Development Policy (balanced development) with new dimensions

NATIONAL VISION POLICY, 2001-10

MAIN THRUSTS

- Building a resilient nation
- Increasing competitiveness
- Developing a knowledge-based economy
- Effecting structural transformation
- Promoting an equitable society

STRATEGIES TO ENHANCE COMPETITIVENESS

Enhancing Productivity

- ❑ Sectoral upgrading to higher value-added activities
- ❑ Upgrade skills and knowledge ~ knowledge manpower
- ❑ Adopt better management & organizational techniques
- ❑ Upgrade R&D and S&T
- ❑ Expanding the usage of ICT

STRATEGIES TO ENHANCE COMPETITIVENESS

Human Resource Development

- Increasing accessibility to education and training including at tertiary level
- Improving the quality of the delivery system
- Promote lifelong learning
- Increasing the supply of S&T manpower

STRATEGIES TO ENHANCE COMPETITIVENESS

Developing a Knowledge-based Economy

- Strengthening S&T and R&D ~ strengthen environment for innovation & knowledge, promote culture of innovation, networking & clustering to promote technology infusion
- Developing infostructure and restructuring the financial system
- Raising knowledge-content in agriculture, manufacturing and services sectors
- Preparing the public and private sectors for change

STRATEGIES TO ENHANCE COMPETITIVENESS

Institutional/Organizational Capacity Building:

- Developing entrepreneurial capacity – strengthen entrepreneurial capacity & growth of technopreneurs
- Developing world-class companies – benchmark against world-class standards, adopt international best practices, establish relationships with foreign partners
- Promoting local SMEs – integrate into IT-based manufacturing, establish own niches
- Developing a resilient society with high ethical and moral values

STRATEGIES TO ENHANCE COMPETITIVENESS

Creating a Pro-business Environment

- Enhancing delivery system
- Minimize regulatory burden and further liberlisation
- Provision of various incentives, tax exemptions and reducing cost of doing business
- Provision of world class infrastructure and supporting services
- Regular dialogues ~ public & private sector for better understanding & an enhanced cooperation

ECONOMIC PLANNING UNIT

THANK YOU

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