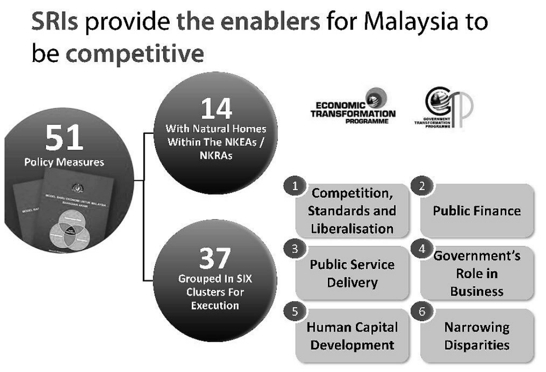
Economic programme set to unlock nation's competitiveness

Reports by **Elaine Deng**

Competition, in any progressive nation, is not only encouraged but a necessary catalyst for a more efficient and dynamic economy. It promotes better performance and innovation – and more importantly, benefits the end users with high-quality products and services at the lowest possible prices. Applying such a principle in its economic transformation programme (ETP), Malaysia identifies competitiveness as a key to its transition into a high-income, fully developed nation by 2020. With PEMANDU at its helm, the ETP uses a two-pronged strategy founded on focus and global competitiveness.

"In the Olympics, you cannot expect an athlete to join 20 different sports categories and become a champion in each one. With the ETP, Malaysia focuses only on key economic areas and we aim to be the best in these globally," says Idris Jala, CEO, PEMANDU and minister in the prime minister's department. "This means we must create the conditions for competitiveness to exist in the economy so that local companies can become competitive and win in the global market."

Within the ETP, focus is established through 12 national key economic areas (NKEAs), while competitiveness is reinforced by key strategic reform initiatives (SRIs). Cutting across all NKEAs, these initiatives encompass competition, standards and liberalisation; public finance; public service delivery; government's role in business; and human capital development.



Competition, standards and liberalisation

The Competition Act 2010 that came into force on January 1 serves as the anchor of the competition, standards and liberalisation initiative, which aims to foster a competitive environment that deters market manipulation and cartel practices.

"Competitive markets will lead to more efficient production and delivery of goods and services, increase consumers' access to cheaper and better-quality products and ensure better allocation of resources," says Ismail Sabri Yaakob, Minister of Domestic Trade, Co-operatives and Consumerism. He is one of three ministers who oversee the implementation of reforms within this SRI.

Complementing the Competition Act, the adoption of international standards and best practices and the liberalisation of the services sector are also crucial to creating a competitive, sustainable and innovative environment towards a high-income nation. Conforming to international standards is expected to improve the quality of Malaysian goods and services and access to international markets, while liberalisation of services opens markets to foreign investment and encourages competition.

Public finance

With a vision of achieving a balanced budget by 2020, the government is seeking public finance reform through four policy measures: adopt accrual accounting for prudent fiscal management; implement efficient broad-based tax for revenue and fiscal stability; strengthen expenditure control; and improve fiscal policy institution and processes.

"The public finance SRI measures will contribute towards realigning the fiscal deficit to 4.7 per cent this year," says Ahmad Husni Mohamad Hanadzlah, second finance minister. "Over the longer term, we are targeting a fiscal deficit of about 3 per cent by 2015 and a near balanced budget by 2020."

Public service delivery

To ensure the ease of doing business and a competitive landscape, a leaner, efficient and facilitative government and a high-performing civil service institution summarise the goal of the public service delivery initiative.

"Everything is done with one objective, which is to deliver the best services to the people of Malaysia," says Ali Hamsa, chief secretary to the government.

To this end, the government is committed to reducing redundancies, adopting clear governance structures, improving governance processes and seeking greater public involvement. It is also promoting enhanced career mobility and opportunities within the public service to support a motivated civil service.

Government's role in business

Taking a renewed view of the private sector as the "engine of growth" to high-income status, the Malaysian government is gradually shifting its role in business from investor to facilitator.

Three aspects underscore the SRI's objectives: establishing the government's role in business; developing a clear divestment plan via a white room; and establishing governance for government- or state-owned companies.

"Reduced direct participation of government in the economy would minimise the crowding out of the private sector," says Malaysia's Prime Minister, Najib Razak. "This outcome would be positive for turning Malaysian companies into regional and global champions."

Human capital development

Apart from having abundant natural resources, Malaysia takes pride in its rich and diverse talent pool. The human capital development SRI aims to maximise such wealth by implementing strategic programmes.

These include modernising labour laws; upskilling and upgrading the workforce; strengthening human resource management; leveraging women's talent to increase productivity; undertaking a labour market forecast and survey programme; and enhancing the labour safety net by introducing unemployment insurance. "These initiatives will provide Malaysia with a highly skilled talent pool that will be able to compete in an increasingly globalised environment," says Dr S. Subramaniam, Minister of Human Resources.

ACRONYMS AT A GLANCE

- **ETP – Economic Transformation Programme**
Launched in October 2010, the ETP lays out the framework to fulfilling Malaysia's vision of becoming a high-income nation with a per-capita income of at least US$15,000 by 2020.

- **NKEA – National Key Economic Area**
These are 12 of Malaysia's strongest and most competitive sectors, ranging from oil, gas and energy to education and tourism. The NKEAs reinforce the private sector as Malaysia's new champions, in close partnership with the government.

- **SRI – Strategic Reform Initiative**
The SRIs represent policy recommendations and cross-cutting reforms that will allow Malaysia to be competitive on the global stage, all for the benefit of the rakyat, or the ordinary people.

- **EPP – Entry Point Project**
The ETP outlines specific projects that are geared towards catalysing investment, and has identified about 131 EPPs and related BOs to kick-start growth.

- **BO – Business Opportunities**
Alongside EPPs, BOs invigorate high-potential business areas under each NKEA. Together with EPPs, these are expected to fuel up to 1.7 trillion ringgit (HK$4.2 trillion) in gross national income and create more than 3.3 million jobs by 2020.

- **PEMANDU – Performance Management and Delivery Unit**
An agency under the Prime Minister's department, PEMANDU oversees the implementation of the programme. It combines the best talent from both the civil service and private sector.

Boosting economy through competition, standards and liberalisation

Compete or be prepared to be irrelevant. Among the six SRIs, the plan on competition, standards and liberalisation leads Malaysia's bid in becoming a competitive global player.

"Competition, standards and liberalisation were one of the first things that we introduced inside the discussion groups for the SRIs," says Idris Jala, CEO of PEMANDU and minister in the prime minister's department.

Formerly known as international standards and liberalisation, this SRI has been renamed as competition, standards and liberalisation to better reflect competition as its major component.

The SRI has three major areas: the swift implementation of the Competition Act 2010, adoption of international standards and best practices, and liberalisation of the services sector. From plan to practice, the first half of the year saw the smooth implementation of these initiatives.

Idris Jala, CEO of PEMANDU and minister in the prime minister's department

Competition Act 2010

The Competition Act seeks to prevent anticompetitive agreements such as price fixing, market sharing, bid rigging and limiting or controlling production. It also deters abuse of a dominant position or monopoly such as unfair and predatory pricing, bundling and refusal to deal. After the act took effect in January this year, the government followed up with the necessary structures to implement it.

The Malaysian Competition Commission (MyCC), which is tasked to enforce the provisions of the new law, released for public consultation in May the draft guidelines on abuse of dominant position. This release follows the publication of three guidelines on market definition, anti-competitive agreements and complaints procedures which all underwent public consultations. The commission is also undertaking advocacy programmes to promote a competition culture among industries.

The government has also established the Competition Appeal Tribunal, which will have exclusive jurisdiction to hear appeals with respect to the commission's decisions on interim measures, infringements and non-infringements.

The prime minister has appointed seven members and High Court judge Mohd Zawawi bin Salleh as the tribunal president. Zawawi's appointment was based on the recommendation of the minister of domestic trade, cooperatives and consumerism upon nomination by the Federal Court chief justice.

Standards

Malaysia has 6,385 product standards but only about 5 per cent of these have been made compulsory. Taking its cue from developed nations that have a high level of standards usage and good enforcement, the ETP aims to upgrade the country's standards.

"Benchmarking against international best practices and adopting international standards will ease our efforts to make inroads into new global markets," says Dr Maximus Ongkili, Minister of Science, Technology and Innovation. "We are looking at strategic sectors where international standards need to be adopted."

Six industry subsectors were identified for standards development based on competitive advantage and export potential. These are medical devices, pineapple, production of carrageenan from seaweed, halal pharmaceuticals, green technology and cyber security.

The government has amended the Standards of Malaysia Act 1996 to accelerate the standards development process. These changes include the appointment of multiple standard development agencies compared to only one agency before. The government will shorten the process of adopting international standards to nine months from more than one year previously and the development of indigenous standards to one and a half years from three years. The government will also enhance competitiveness by looking into other industry and services standards covering sectors such as health care, green products and electronics and electrical.

Services sector liberalisation

Given that the services sector is an important growth engine, the government aims to raise the sector's contribution from 59 per cent of the gross domestic product last year to 65 per cent in 2020. This strategy reflects the profile in developed economies where the services sector accounts for 70 to 80 per cent of their domestic output.

"In this competitive and challenging economic environment, we see the need for the services sector to remain strong and resilient in order to drive overall economic expansion," says Mustapa Mohamad, Minister of International Trade and Industry. "The progressive liberalisation of the sector is expected to give it an even greater role in generating growth, broadening the economic base and increasing contribution to services exports."

Of the 18 subsectors slated for liberalisation this year, nine sub-sectors are at the implementation stage with foreign ownership of up to 100 per cent allowed in these nine sub-sectors. These include accounting and taxation services, department and speciality stores, private hospitals, vocational schools and telecommunications involving applications service providers.

Malaysia is being recognised for its efforts to raise its competitiveness. The 2012 Global Competitiveness Report by the World Economic Forum ranks Malaysia as the 21st most competitive among 142 countries worldwide. This is an improvement of five notches from the country's 26th ranking last year.

The ETP is on its second year, while the SRI on competition, standards and liberalisation is on its first year of implementation. Considering the significant improvement in Malaysia's global competitiveness early into these programmes, imagine where the country will be after eight years in 2020.

Cultivating competition towards becoming a high-income nation

Effecting change in an environment of decades-long business practices is a formidable task. Undaunted, the Malaysia Competition Commission (MyCC) is enforcing the Competition Act 2010, which aims to create a more competitive business environment in the country.

"The expectations are high in that people expect changes overnight. Managing these expectations is one of the biggest challenges that MyCC faces," says Shila Dorai Raj, CEO of MyCC.

These challenges include a lack of awareness of the Competition Act. Even after an aggressive campaign prior to the act's implementation, many businesses remain in the dark as to compliance and its benefits. To address this, MyCC created an advocacy programme from this year to 2014 targeting priority sectors.

Small and medium enterprises (SMEs) have also expressed their reservations about the act, which demands compliance, regardless of a business' size. MyCC allays these concerns by explaining how the act is able to protect SMEs from any anti-competitive activities of larger companies.

MyCC prioritises curbing cartel-type activities involving large companies. It is examining the halted share swap agreement between AirAsia and Malaysia Airlines for elements contrary to the act. MyCC is also evaluating applications of companies asking to be exempted from the act.

Faced by these challenges, MyCC remains committed to its role for the benefit of the average consumer and the economy of Malaysia.

"When there is an effective competitive process, one can expect to see lower prices, higher-quality, innovative products and attractive service," Raj says. "It may not be evident two to three years down the line, but I am confident that, given time, and with cases decided by MyCC, which will demonstrate the effectiveness of enforcing the law, Malaysia will emerge as a competitive nation."

Revitalising workforce creates conducive business environment

The signing of Malaysia's first minimum wage law, affecting approximately 3.2 million private sector workers, signifies great progress in modernising labour legislation, reflecting the government's commitment to human capital development.

Aiming to boost productivity and competitiveness in the workplace, the government set the minimum wage rate at 900 ringgit (HK$2,213.70) per month for peninsular Malaysia and 800 ringgit for Sarawak, Sabah and Labuan Federal Territory.

Extending the retirement age and future amendments to the Industrial Relations Act are also some upcoming initiatives to transform the workplace.

Streamlining labour legislation plays a crucial part in the government's aim to transform Malaysia into a high-income nation and ensure its global competitiveness.

The modernisation of labour laws also helps the government to reduce labour management costs and encourage potential foreign investors to conduct business in Malaysia.

Workforce transformation goes hand in hand with workplace transformation. Collaborating with the private sector, the Malaysian government is providing incentives to employees to upskill in international certification and training programmes to meet the skill sets that multinational companies (MNCs) require. It also serves as the bridge between academia and industry, helping to hone industry-ready graduates. The government's goal is to showcase the capabilities of the local talent pool and transform the country into a talent hub by 2020.

"To become a high-income nation, we have to move from a model which is reliant on cheap labour towards a more knowledge-based, productive workforce. We need to develop new skill sets to achieve this goal," says Azian Shahriman, NKEA director of education.

Addressing skill gaps in oil and gas, tourism, information and communications technology (ICT), and engineering across industries, is a priority.

The government pioneers initiatives, such as Malaysia MyProCert programme, to accelerate the upskilling of ICT capabilities.

MyProCert participants receive a minimum of 25 per cent reduction off the certification fees from private sector players. The government also reimburses 25 to 30 per cent of the fees to the employees as an additional incentive upon passing the course.

A national talent enhancement programme for engineering graduates and technical vocational certificate holders is also in place, in which the government looks for host companies to provide graduates with industry experience in an immersive environment.

"The Malaysian government is responsive and it creates a business-friendly environment," Azian says. "It is very accommodating to investors – all they have to do is to specify their needs and the government will work on developing the talent pool that they need for a successful business. Interested investors need to work with the government. Malaysia is open for business."

Privatisation sets course for country's global rise

Recognising that private sector investments are crucial to attaining high-income nation status, Malaysia is earnestly pursuing the privatisation of state assets in industries where commerce is working well. This thrust is contained in Malaysia's ETP, which sets SRIs designed to raise more than US$400 billion in investments from the private sector over the next eight years.

"We brought the private sector into the SRI discussion right from the start," says Idris Jala, CEO of PEMANDU and minister in the prime minister's department. "We want to make sure that the government and the private sector are moving together on the ETP."

Following intensive consultations, the government redefined its role in business as regulator and facilitator, confining direct investments to strategic areas such as defence, rice production, national infrastructure and regional corridor developments, and long-gestating industries. This led to a divestment programme involving 33 government-linked companies (GLCs) under six government-linked investment companies (GLICs). Eleven of these divestitures were completed last year, 13 are lined up for this year and the remaining nine will be pursued next year.

The impact of sustained privatisation is lasting. TIME dotCom, an early divestiture, has flourished with the entrepreneurial drive of its new owners. The entry of private sector players such as the DRB-Hicom Group into strategic national interests strengthens existing supply chains and makes entire industries globally competitive. Khazanah Nasional, a federal GLIC, sold its stakes in Pos Malaysia, the national postal service, and Proton, a national carmaker, to DRB-Hicom in separate bidding exercises.

Khazanah also sold last year its 10 per cent stake in EON Capital to Hong Leong and has completely divested from tollways operator PLUS Malaysia in favour of private firms UEM Group and EPF. Its divestment from STLR, a property investment company, began in June. Another GLIC, Employees Provident Fund, divested 12 per cent of its holdings in financial conglomerate RHB Capital as of last year.

Bursa Malaysia, a major venue of the privatisation programme, is fast becoming a hot spot for global investors. The market debut of Petronas Chemicals in 2010 and MSM Malaysia last year was just a preview of things to come. The initial public offering (IPO) in June of Felda Global Ventures Holdings (FGVH), Malaysia's largest state-owned oil palm plantation operator, has been hailed among the world's major IPOs this year and the biggest so far in Asia. MSM and FGVH are GLCs under the Federal Land Development Authority.

The concurrent dual listing in July of IHH Healthcare at Bursa Malaysia and the Singapore Exchange has all the more whetted investor appetite in Malaysia as a global investment destination. IHH Healthcare, previously majority owned by Khazanah, operates medical facilities in Singapore and Malaysia.

"We remain committed to reducing the government's role in business to enable the private sector to take the lead," says Malaysia's Prime Minister, Najib Razak.

With Malaysia's regional champions successfully taking to the global stage, the country's rise to power is just a matter of time.

Enhanced public service delivery enables new businesses to grow

For Malaysia's economy to flourish, businesses and investments need an environment that will help them grow. This includes the support of a government that makes it easier for entrepreneurs and companies to do business.

To help create this environment, the government fast-tracked two major initiatives under the public service delivery SRI – Business Process Reengineering (BPR) and the Online Licences Approval Programme. These initiatives reflect the government's determination to remove overlaps and improve licensing processes.

"Everything is done with one objective, which is to deliver the best services to the people of Malaysia," says Ali Hamsa, chief secretary to the government.

The BPR is already gaining ground. The Focus Group on Business Process Reengineering is keeping tabs on the progress of its implementation. The special task force consists of the Malaysia Administrative Modernization and Management Planning Unit, the Malaysia Productivity Corporation and the Implementation Coordination Unit.

PEMANDU CEO and minister in the prime minister's department Idris Jala says that under the BPR initiative, 405 business licences have been identified for elimination or compositing. The public service delivery SRI is expected to save HK$1.78 million in business compliance costs. The government will be simplifying another 271 business licences and putting them online for easy application in connection with the Online Licenses Approval Programme.

Under the Online Licenses Approval Programme, the Business Licensing Electronic Support System (BLESS) aims to incorporate all these business licences to give business owners convenient access to the information and facilities they need to begin operations.

Business owners can track their applications and receive updates on their approval status on the BLESS website. The site also allows licensing agencies to get in touch directly with business owners for quick clarifications or confirmations, making the application process faster and more efficient.

BLESS may be accessed from my Government portal, which will unify all government services on a single website. The portal is continuously updated to give business owners immediate access to pertinent services such as corporate identity number registration, online payment systems and applications for privileges granted to multimedia companies. It also provides businesses and investors helpful information on various industries including energy, finance, health care and education.