The New Normal

AEI Occasional Paper 16

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Prof. Datuk Dr. Norma Mansor

A very good morning especially to a dear friend, Dato’ Amir for this morning’s roundtable, also to the director of Asia-Europe Institute and the two deputy directors, and everyone in this room. For me this is about managing expectation. I think we are all learning, just like you I am also learning about what is happening with the Malaysian economy and the world because Malaysia is one of those countries that is so open that our export and import is about 200% or more than the size of our GDP. We trade, we import and export goods and services, much larger than the size of our economy. This is what it is all about. How is it different for Malaysia now than it used to be because we have always been open. As many of you here I think would remember the history of Malaysia and this region that we used to be the centre of trade, the spice trade, and therefore we had many European countries coming to this part of the world trading and also to colonize us as well.

When I was working on the growth strategies for Malaysia for 2010, 2011 to 2020 and it was incorporated or it became a document called the “New Economic Model,” we looked at data, we looked at evidences of where Malaysia was and where Malaysia is and what are the obstacles for us to move forward to go to the next level of development. Then, we realized that the world out there is changing, we are changing as well but some of changes out there will impact us greatly. More or if it is not the same more than it used to in the past. In the past, we could capitalize on our strengths. That has no longer become our strength, in a way because some other elements, some other variables have come into the economic arena at the global level because we are such a global economy.

Some of the issues that I will be sharing with you are the issues from the new economic model, but I will also add some new information or some new events that are happening in the world. I will start by looking at the Malaysian economy although some of you are well aware of this by giving some macroeconomic numbers but also to look at Malaysia vis-à-vis the rest of the world. This is dated, this if found in
the New Economic Model document as well but I will give you the latest figure as well in the later slides but just to share how our boom and bust are affected by what happened internationally. Because as I said, the current statistics show that Malaysia is more than 200% open to the rest of the world in terms of import and export. We export goods, we export some services, not that much, we do tourism like we are looking at about 60% exposure to services. We are very exposed so we are affected by what is happening globally. At the global level in 1970s, there was an oil crisis, Malaysia was affected. After 1975 also if you can see the graph. In 1982 and 1983, there was another oil crisis, and there was another dip for Malaysia. After 1985, when we recovered and the first 1987 to 1997 that was when we experienced robust growth. For so many years, our investment is greater than our savings but after 1997, that was when the savings was greater than our investment. Our investment was lacking post 1997 and that should be the engine of our growth. From this graph, you can see about Malaysia and what is happening internationally.

In 2013, as you can see the growth was 4.7% but we had better growth post global financial crisis although our economy contracted in 2009 by 1.5% but we grow by 7.4%. Our growth in 2013 was 4.7%. We are expected to grow at a higher rate, 4.5%–5.5% for this year 2014. If you see from the composition of our growth, it was basically driven by domestic consumption. Our trade did not improve as much as we would like it to be. It is also affected by the fact that we import intermediate goods. So this is the story, Malaysia economy is open. As a result of targeted liberalization and the industrialization measures, Malaysia benefited tremendously from our increased manufactured exports and improved consumer welfare. But the openness is two-sides of a coin. The openness has also led to the vulnerability to the economy. How does the global economy do post the global crisis you can see here that the growth here is not steady. It grew at 2.6% in 2010, 1.5% in 2011 and it was moderate growth and it starts to grow again. And as you can see, the emerging economy will be countries like Malaysia, we mirror the growth trend that is experienced globally. Whether we like it or not, something that is happening externally is going to affect us. What should we do in order for us to cushion, to mitigate the negative or adverse effects of the external environment?

As we can see, we have also diversified the composition of our export products but although the percentages have changed slightly and all that what is important and the key point that we can take from this pie chart is that, as far as the economy is
concerned, we still rely very much on the primary or commodity base exports. We do little to value add. In terms of innovation, in terms of knowledge driven economy, we are not there yet. That is what I want to say. Our export destination, when 2008 global crisis happened and this was largely the advanced countries, Malaysia despite being opened, being 3rd opened in Asia, Malaysia was not badly affected simply because we have diversified post 1997, 1998. In the 21st century, we have diversified our exports. We are exporting or trading very much with our ASEAN members and we also trade with the Middle East and North African countries and also China and India. So, we were able to diversify our exporting and trading. So, when the global financial crisis happened, Malaysia was not the third most badly affected. We faired better compare to other countries which rely heavily on trade because we have diversified our trading partners prior to the crisis. What are the features in the 2012, 2013? As I mentioned earlier the weak growth in the advanced country, our external position remains resilient because after 1997, we were able to maintain our current account surplus but capital flows have been volatile due to various factors. I will touch on it as we go along. We have robust domestic demand underpinned by both investment and consumption. I would qualify the word robust. It was not as robust as it was pre–1997 crisis but slowly it is coming back but we have other issues. Of course inflation is not an issue for us although it is higher in 2013 because of the oil prices and government has reduced its subsidies for petrol. Our bigger problem is inequality and this affects the structure. The big challenge as I will address in other slides for Malaysia is addressing these structural issues. We are relying on commodity as you can see here although manufacturing is part of us being on the global supply chain but still it is dominated largely by MNCs.

The next section is what are the domestic challenges and some of the challenges have been addressed in the New Economic Model and they are challenges to Malaysia. Our economic engine since 1997 is slower and it has not taken the pace that it had prior to the crisis. Other countries that have taken different approaches to handling the crisis are doing better and of course there are other countries that are doing worse than Malaysia too but we have our explanation as a country. That is why the challenges that we see maybe to the others these are not as big as the way we feel. So what are the issues post–1997? These are the FDI that has left and it hasn’t been fully recovered. Our own investment too has left, they are slowly coming back but after the global financial crisis because of the weak demand for Malaysian export
we were also affected by that and the quantitative easing in the US of course caused capital outflow from Malaysia.

This is what is happening or rather what are the structural issues for Malaysia if we want to move forward. What is wrong with our pricing system? When we hear people talking about the rising cost and all that because the government has stopped subsidizing, not stopped but still subsidizing, reduce the subsidies for petrol and gas for industries or our input into the production is undervalued including labour. We can easily get distracted by big noises out there, shouting because it also affects us. There are also ways of mitigating some of these adverse effects. The undervaluation of our resources it would end in gross misallocations simply because when things are cheap the way people utilize the resource is as such, because it is cheap. Even the profit generated from businesses because of the cheap input when they profit from these ventures, they are not real. Because if it is at market value, let us say the labour is priced at the right price, how do you price labour at the right price? Labour can be at the right price when the demand and supply are met. We relied on cheap labour in the past. When labour becomes more expensive, when we lacked labour but the industry says come in, we are relying on cheap labor then we opened our gates for cheap labour to come in. If you are a company, a local worker asks for a higher price, and get an international worker who probably wanted half the pay, who do you go for? That is normal human logical decision making process. On top of that, all the medical health costs to all these guest workers are also paid by the government because they all go to our public health system. If we want to itemize what are the resources that we have undervalued, or the government has started to support our industry, to support us, you can name it. How much do we pay for water? If you go around Malaysia, of course not now maybe because we have water issue, but let us say a year ago or two years ago, you see the maids were watering the plants, as is they were playing with the water, and how we washed our car, you don’t get this in other countries because we underpriced our water, our electricity. People leaving their air-con just like that. But who pays for these? In the end, it is us. When the government expands to pay for all these things, you reduce money that goes for other things. I will show you later. And also the government faces deficit. Here is talking about the pricing system, an economy cannot be efficient and productive if you don’t price your inputs by the market price because you are happy enjoying the profit. Why go for downstream when you are profiting where you are at when you can export commodities and still earn profits. This is what we called structural
problems that Malaysia is facing. Inputs are cheap so you do not have to innovate yourself, therefore productivity level is lower.

The education sector when we were working on this document, we were talking about the quality of education. We have met the Millennium Development Goals (MDG) on education. The data shows that in 2009 and 2010, 70% of Malaysia workforce has SPM qualification, school certificate at entry level. Meaning that, they just finished at 17 when they enter the job market. They may have gone for the on the job training, or continuous education but at entry level was what we saw in the data. The quality of school and university education. When Tun Mahathir came up with the Vision 2020 and we came up with the Industrial Master Plan, we have clearly targeted for education it has got to be 60% Science and Technology, 40% Social Science and Humanities. The data shows that, for both at the diploma level and degree level is the opposite. You get 55% Social Science and the rest Science and Technology. It is the opposite and yet it was clearly planned if you want to move up the development stage, we are now at the upper middle income, if you want to move up to become high income, we need a lot of knowledge driven expertise into the economy. That is why we need the Science and Technology graduates. The emphasis has to be on Science and Technology. Of course we need the Social Science as well. Science and Technology is key to our industrialization.

The other issue is our lower income group, the inequality in the country. According to our data, 80% of the Malaysian households earned RM3,000 and below. To be more specific RM2,555 a month. The Prime Minister has announced first started with RM3,000 and now it went to RM4,000 because it is a large group that we are talking about which is what you call the middle income. Our middle income is not the middle income that is equivalent to the rest of the world. Our middle income earners earn about RM3,000 and that doesn’t get very far with the RM3,000. I still remember when I was working on some of my other research in the 80s in 1997 or thereabout, we used to pride ourselves as an egalitarian society just like Australia. But now we are not, the middle income, the purchasing power is very low. Because of the low level of education, as I said 70% of our workforce is with SPM and below, as an economic resource, we are not utilizing their potential. For Malaysia to move forward, we need each and everyone, including the bottom 40%, for them to become a resource for the country. That is why it is considered as an economic issue.
Corruption is one of the items highlighted when we were looking at the problems faced by the country. This high level corruption happening in the country has to be addressed head on. Recently, Datuk Seri Najib has appointed Low from Transparency International to lead the high level corruption. Street corruption although some of us believe that this has been curbed but you still get people talking about it. Still there is a lot of work for other agencies.

Rent-seeking and patronage is still happening in the country. This can be due to inefficiency. You have at firm level and you aggregate them, it becomes at the national level. Rent-seeking and patronage is when things are allocated, government projects or activities are not according to merit. When we have special privileges to whoever, when these privileges are not checked, you can become rentiers. Rentiers can be that you owned a building, you rent you, you don’t work, that is passive income for you. Rentiers can be in many forms. So, it can be unproductive, because you don’t produce but you earn from it and people who produce earn less. Instead of paying tax, they are paying you. How does it fit into the whole economy? So, you have to see the overall link to the economy. It is still pervasive.

Talent is linked to education. You need a sufficient number of scientific and technical pool of talent in order for you to be involved in R & D activities. There have been efforts and initiatives towards improving the talent sector and the establishment of Talent Corporation. Talent recommended in the New Economic Model has to be number one, since we don’t have now, we import talent. It can be Malaysian diaspora, it can be international guests. We import because we don’t have the number. But, we should also retain talent. Whoever that we have in the country, we should retain them. People are leaving the country because wages are higher elsewhere. In the past, there could be some other political issues, but now, for many, it is about the wages. Some of the graduates here in Malaysia are still getting RM1,000-RM1,500. Whereas is Australia for instance, someone who graduated in Australia when you start to work, you receive USD5,000. So, who would want to come back? Professors from University of Malaya in post retirement, when you don’t have enough ISI publications, you are given a title senior fellow and you get RM10,000 a month. Whereas if you go to Saudi Arabia and Qatar and all these places, even an Associate Professor, you earn maybe USD10,000. So, that is RM30,000. If you go as a Professor, you will probably earn RM70,000-RM80,000. So, unless you have an ailing mother, or some issues with family, then you stay back. Otherwise, you go. Many have left for
Singapore, many have left for Hong Kong. So, what are we doing to retain talent? The government has tried, I must say. At the end, when we launched a document, we must congratulate Datuk Seri Najib and his cabinet, they have taken up a majority of our recommendations. Those recommendations are to cover until 2020. So, others initiatives will follow. The next recommendation for talent is to grow talent. So, you retain talent, you import if you don’t have enough, because industries if you talk about R & D, you are not talking about 2 or 3 engineers. I still remember, when I was doing the consultation to come up with the document, we consulted 11,000 individuals to come up with our New Economic Model. I still remember from the audience, someone said, ‘I met some engineers, they were out of jobs’.

But what do we do, they need 3000 engineers, I can’t. I can only get four or five. So, this is real. You want to get into R and D, you want to have that value add, that’s where the return, the highest return comes from value add. But when you don’t have enough people, to populate that, to be involved in those kind of activities. So what happened, we are talking about competing the same dollar, so they will go elsewhere. So what? Are we going to stay at the low cost assembly kind of activities in our country? So this is something that we put forth to the government. So that is why, that now there is some easy mobility at the higher level. In the past, the mobility was at the lowest level. We were just the opposite of Singapore. Singapore allows mobility at the higher level. We, for some reason, we were restricted with the mobility at the higher level, but we were very liberal with the mobility at the lower level. And yet we’re talking about the creation of wealth. So now it is changing because in order for us, while waiting for our talent to grow, we have no choice but to get others to come and work with us to create wealth, with us and not for us, with us.

Our private sector, of course there are so many studies about our short-sightedness of our business people. We’re talking about an economy that has to be big with a lot of entrepreneurship when you want to grow and create wealth. How should it happen? What should happen also is through the venture capitalist. Venture capital or what you call the angel investors in some countries. In Malaysia, the way that our young entrepreneurs want to do business is they go to the bank. If they go to the bank they don’t have a track record, they don’t have collateral, they cannot start their business. In other countries or in the US which is famous for this, they have what they call the angel investors or the venture capitalist where rich people who have the money and they want to support the young entrepreneurs and that’s how
Silicon Valley and all that happened. A colleague shared with us, although I have a lot of other anecdotes, but he was sharing with us when he was trying to get some people to start a business and approach a local venture capitalist, he was asked for collateral. And yet the true spirit, but even when the venture capitalist, that means that you are interested to venture, you yourself are an entrepreneur but you want to support this young entrepreneur, you have the capital, you support him, and give him the money for him to start the business. So this is the problem with our private sector. It’s about short term gains. It is about getting as much profit as we want now and not thinking about what should happen to the future generation. The government has started several initiatives such as the CSR and all that, but they take a while before we can change this.

As an example, the minimum wage issue, we’re facing a lot of problems. There’s some truth in it, there’s some difficulties for some companies but there are a lot of companies that do not have problems with that, but would not want to forego the kind of cheaper input that they have experienced in the past too. So this is true too. This is what’s happening in the country.

The private sector is also an issue in Malaysia because of the slowness, the government bureaucracy, government red tape, but I must report to you here that since we did the New Economic Model, the plan, a lot of this has improved as well. But we still have to work on it, especially at the local level. We are able to reduce some of the red tape especially when it comes to doing business. Of course we have a lot of good stories to tell. Immigration, how counter services have improved. But we have to improve a lot more. And luckily for us, because we have ICT as the flagship of the project, Multimedia Super Corridor, when you have ICT in almost all government departments, it is a lot easier for you to reduce the cost of doing business. And we are really pushing for agencies to do things online, so that you can reduce a lot of cumbersome rules and regulations, but also on the corruption. Because when there is no intermediary, then corruption too, hopefully, will be eliminated.

These are the skilled and unskilled labour for 2002 and 2007 and use of high skilled labour across industries for twenty seven. Highly skilled and low-skilled labour, the high-skilled are for Malaysia. This is compared with the one below compares between Malaysia, Singapore, Taiwan, and Korea. This is dated though, but it doesn’t run too much from this graph. Compared to other countries, our low-skilled labour is 75%
so it ties in very well with when I mentioned about 70% of our workforce has SPM at the entry level and Singapore 51%. Singapore has improved tremendously now too and so has Korea and Taiwan.

Ok just to share about the structural issues that I was talking about earlier on the education sector. The first degrees awarded under technical and science in 2007, 57%, is still the opposite. The industrial master plan 60% of our graduates should be with technical and science education. But what happened in the process, public policy is as such that policy can be good, but if you don’t monitor at the implementation level, then output can be far from what you have targeted. Number of graduates from vocational and technical also as you can see that it is declining and there was many other data that has been thrown about even by our minister of education, also our DPM talking about fewer students going for technical or going into the science stream. So that is something the country has to address if we want to move forward.

So, what is the New Normal for us? The New Normal is this: We have no choice, it’s not an option that we have to deal with the extra challenges. The extra challenge is we are going to be modest. When we were working on the new economic model, we targeted that the developed countries were going to grow at 3% from 2010 to 2020 but they are not growing at that rate. So it’s modest and uneven recovery in the advanced countries and this will impact us because it’s our exports that are going there and also for our investments, for our foreign investments. As I was saying earlier, the trading, the Asian economies, Southeast Asian and also with China, with India, but they are also facing some problems in their domestic economies, less robust on domestic demand. We are also facing stiff competition from countries in the same league. Which other countries are in the same league? This would be like Vietnam, China, India of course and slowly, Myanmar. What is the population of Myanmar, 46 million, 48 million or more? Myanmar, Indonesia, so we are facing stiff competition from countries in the same league.

And, also, facing us is the greater push for trade liberalisation. If you go by classical economists or neo-classical economists, when countries or economies come together to trade, it is supposed to be good, it creates welfare or fair gain out of it. But, more and more, blocks are also happening. For Malaysia, ASEAN is one of those that we have to open up. Many of our imports are zero tariff now, we have signed six FTAs on our own, meaning that FTA’s are bilateral, and we also have the TPPA’s on the
way. The TPPA involves 12 countries, including the US. So the TPPA is soon going
to be with China which involves ASEM with China without the US. So, these are
what you will call the spaghetti. You have the bilateral, you have the multilateral as
WTO but you also have a crisscross of bilaterals and multilaterals. Now, we have
to accept this, this is the New Normal for us, for Malaysia, because we are part of
the game. We cannot say oh oh, we are going to insulate ourselves. We’re not going
to sign the TPPA because there are so many issues that we cannot resolve. I’m also
working on the TPPA with another group looking at what are the issues that are facing
us and there’s a lot of issues. And the conclusion of that, is that, unless we work on
our structural issues, the foundational issues, we will not be able to gain from all this
liberalisation that is supposed to be gainful to an economy like Malaysia.

So our challenge is because we want to elevate, we want to become a high income
country. So the Prime Minister had introduced a government transformation program,
an economic transformation program, and a political transformation program, and all
these initiatives are chartered in a small or medium term plan such as the tenth and
the eleventh plan. We want to be a developed, high income developed nation. But,
we have these three goals which are equivalent, they’re all important. High income,
inclusiveness, and sustainability. So the challenge is, if we achieve a high income,
but we are not inclusive, and it is not sustainable, well then, are we happy with that,
as a nation? I don’t think we’re happy with just becoming rich, but not shared by
the rest of the country and our inequality still will remain very bad. The income gap
between the rich and the poor is still very wide. I don’t think we would be happy
with that. And also with sustainability, that our resources, our fiscal sustainability.
So sustainability here is both fiscal as well as environmental, green growth is what
we are talking about. In the end, we talk about the reform initiatives.

As I said, the New Normal is, I have mentioned earlier, the domestic issues, and also
the global challenges. So, in our strategic reform initiatives, it is about working on
our structural issues, meaning that as a country there is something that is core, that
come what may, if we are strong with our core, we might be affected but the adverse
effect will be mitigated and we will be less effected. So that is why it is important
for us to know what are our core issues, what are our core problems.

So, one of the recommendations, because all these eight recommendations were
derived from the eight structural issues that I mentioned to you earlier as the barriers
to us becoming high income. Number one is on our private sector. On re-energizing the private sector I think we have been exposed to data and information that private sector investment has improved in the country over the years it has improved. What are the reasons? There can be many reasons. But some of the reasons would be that people see that they can, there is potential for them to grow and for their business to grow in the economy. But a few policies have been right as well. We have created the anti-competition law, the competition commission, we have also liberalised many sectors. So, because of that, the private sector has been re-energised, but we say that it has to be further re-energised, especially in sectors that we feel we have our strength, there are a few sectors where we have our strength that have been identified.

I think many of you have heard, commodity is still, we cannot run away from commodity, we have to go downstream, we have to value add, we cannot just export crude oil, crude palm oil we have to value-add within the country. Commodities include oil and gas. Our strategic location, our logistics, this is also our strength. What are the other strengths that we have. Financial, we cannot compete with Singapore and Hong Kong, but Islamic products are something we can capitalise on. So there are a few that we have identified about nine or ten sectors that we feel that the government should focus on liberalising these sectors so that the economy investment can be robust.

So the government has liberalised, for instance, education and all that. That’s why we can see that foreign universities are establishing their campuses here. We are developing a quality workforce. On developing a quality workforce the government has started with the education blueprint, but before the education blueprint in the 2011 and 2012 budget as well as in the tenth plan that was when the government introduced the technical and vocational education training institutes and giving certification to people in that letter. In Malaysia the academic ladder or academic stream is always superior to the technical level, unlike Germany, Korea, or Australia. In Australia, a plumber can be paid higher than a medical doctor. But in Malaysia, a plumber, this kind of vocational worker, is a very poor salary and also is not something that is well respected. So for instance, I always give an example, in the UK for instance you see people who are digging a drain and all the people who pass by will say, ‘hello love, good morning love’. In Malaysia they will try to hide because we attach value and respect in society to their work and their job status because of this idea of minimum wage because we didn’t have minimum wage. But however, what Malaysia
has done because we have recommended this in the New Economic Model among other things under a quality workforce is that to improve or to have standardisation and certification for technical and vocational training. So that was introduced and that’s why you have community colleges and you have so many technical colleges and the Germans are coming here establishing schools, getting our people to work in their industries.

The next one is the competitive domestic economy. Slowly we are going towards fair market price, or market price, reducing subsidies and all that, that is what we talk about when we talk about competitive domestic economy. We price things at the right price, we don’t subsidise price. Slowly we are moving away from subsidising resources. Strengthening the public sector we are working on that. There is a government transformation program and it has come out with some strategic move towards that in order to strengthen the public sector and also the outcome based budgeting will be towards that because outcome based will indicate that ministries will have to come together and define what is the outcome at the end of the day. So ministries have to work together in order for them to achieve that outcome.

And lifting the bottom 40%, this is the people who are earning the bottom 40% at the last count that we did was RM 1,223, or according to the Ministry’s data, it was RM 1,500. Meaning that 40% of our population earns an average income of RM 1,500 a month average. Of course there are people earning RM 400, there are people earning RM 500, and there are people earning RM 2,000, but we’re talking about averages of RM 1,500. So about 40% of that. So you add another 40% with earning RM 3,000 and below. To address this inequality or lifting the bottom 40% is when the government is improving the education system and also engaging some of the social protection issues in this country. Because clearly, when you talk about lifting the bottom 40%, we carefully choose the word, ‘lifting’, the bottom 40%, meaning, we want to lift them up. Of course there will always be a bottom 40% in any economy, if you want to talk about the bottom 40%, but the characteristics will be different. The characteristics of our bottom 40% is that income average is RM 1,500. Education wise they are SPM and below known as high school or I don’t know what you call it in your own country, and what else, poor health, we have verified they are mainly rural, of course they have low poverty as well. So we have these characteristics. So when we say lifting, meaning that, we will lift them up, to the level, that an average Malaysian would live. So building the knowledge base infrastructure this is the R
and D that we’re talking about. So the government has taken the initiative by creating the research universities, giving more money to the universities to create the R and D, especially in science and technology.

But what we are not doing yet, is working on the social protection. Social protection in the past for Malaysians was always seen as a certain image when you talked about social protection or social welfare. So social welfare is more for people who are handicapped, who are old and all that. But it is these social protections that have managed to free talent, to free people in many developed countries for them to take risks, for them to innovate. Because if you know that you are fired from a job because you took the risk and you failed. If you know that you are fired from the job you are left with nothing, your car mortgage, your house mortgage and everything is around you and you have growing children, who would want to take any risk. Nobody would right? But in countries with good social protection, they know that if they are fired, they can restructure the mortgage, in some countries they even call in a job search allowance. But in many countries they will pay the first few months maybe three quarter of the salary and the next few months, half of the salary because you have to allow talent in your country to feel that they are free to innovate and take risk and if they fail they can fall back to something. But the problem in our country is that we don’t have that. So we provide the other things conducive for growth, conducive for innovation like giving money supporting the universities, but we don’t have entrepreneurs out there that say ok, ‘can I take your invention and go out there and market?’ So you don’t have entrepreneurs out there who are willing to take risks like that, or that professor himself to say, ‘Ok, I’m going to quit the university, I’m going to go out, I’m going to sell my invention or my discovery’, because that’s the only way to create wealth. Staying in the university doesn’t mean anything. Of course it serves in the development of our intellectual development but when you talk about the appreciation of wealth it’s got to translate into dollars and cents. So, that is something we have to work on. Enhancing sources of growth, I think, this is also true and all the government is working on that and the sustainability of growth are some of the issues that I mentioned earlier.

In order for us to reach the lowest 15,000, that is the lowest of the high income or it may even be lower if some countries are growing slowly and also, any economist here would know that also depends on our exchange rate, but it’s 15,000 by 2020 and currently our GDP per capita is 10,500 or close to 11,000 US dollars. So we are
in 2014, so we have six more years. In terms of income, in terms of growth, bearing
the global environment, I’m sanguine, I’m hopeful, in other words, that we can reach
that, provided we work on these issues. We work on the efficiency, the government
sector, at firm level, individual level, and we can improve the efficiency, the labour
market, are we sending the right signals in the labour market? Our totalled factored
productivity, is it improving? Our productivity has improved but not at the level of
the 1980s and so on. Of course it’s a different kind of labour productivity that you’re
talking about then, so now, if we want to move to the next level of development, like
I said we are competing, remember when I talk about the global challenges, then,
other countries are competing for the same dollar as well. So when we don’t have
enough talent, we don’t have enough capacity to absorb those dollars. We will lose
out, and if we lose out, in the end it becomes a vicious cycle.

It’s quite easy to see how the economic cycle works. I will just summarise that
investment surely is the value driver and if we provide the environment conducive
for business, investment can happen but some people are saying that some sectors
are still not liberalised. Liberalisation, although it is not our word that we coin, we
have to be cautious with liberalisation as well. But there’s also some value, even if
you’re a nationalist, protectionist, there’s certain value of liberalisation. Some of these
values, that you personally might come across this, for instance, we talk about our
legal system, our legal service in this country. I think I can even do a quick survey
that how many of us have experience with lawyers who don’t do their jobs. Why is
that? No competition. So legal system is one of those we say we should open up.
Other people have to come up to speed with this as well. So, for as long as we don’t
open up, we are happy, so our lawyers were poorly paid because they are doing
just mundane things, and we’re happy with that, but we open up and there will be
competition. Our lawyers can do work elsewhere too, but our legal system, you and
I too, will get better help. Because our lawyers feel that they need to buck up.

What other sectors that we have not opened up? There are a few sectors. But
some sectors I think for national strategic purposes like telecommunications, oil
and gas, I think many countries even if they’re open, they’re cautious about some
of these sectors. There are sectors that we can open. Our banking sector is what
you call ‘managed liberalisation’ of our financial sector. But legal is one of them,
accounting system we have opened up, education system we have opened up. So
this liberalisation to a certain degree does help us to be part of the 21st century and part of the competitive global environment.

So ladies and gentlemen, that’s all from me and I think that is a lot of issues when you talk about New Normal for Malaysia and a big challenge for policy makers because policy making, when you tweak one policy, the impact on the other policies has to be evaluated as well. So these are the challenges, this is the New Normal for Malaysia that we have to whether we like it or not we have to work around it. Thank you very much.
About the Author

Professor Datuk Dr. Norma Mansor was appointed Secretary to the Malaysian National Economic Advisory Council (NEAC) in the Prime Minister’s Department in 2008. Prior to the appointment, she was Director of Institute of Public Policy and Management and Dean of Faculty Economics and Administration, University of Malaya since 2001. Currently, she is serving as Professor in the Department of Administrative Studies and Politics and Director of Social Security Research Centre. She has written more than 100 academic reports, articles and chapters in book on topics ranging from public policy, public administration and governance. She serves as reviewers and as editorial board member of several journals.
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