

The **New Economic Model (NEM)** formulated by the National Economic Advisory Council (NEAC) was launched by the Prime Minister on March 30, 2010. The NEM is one of four pillars of the Government's blueprint in moving Malaysia towards developed nation status.

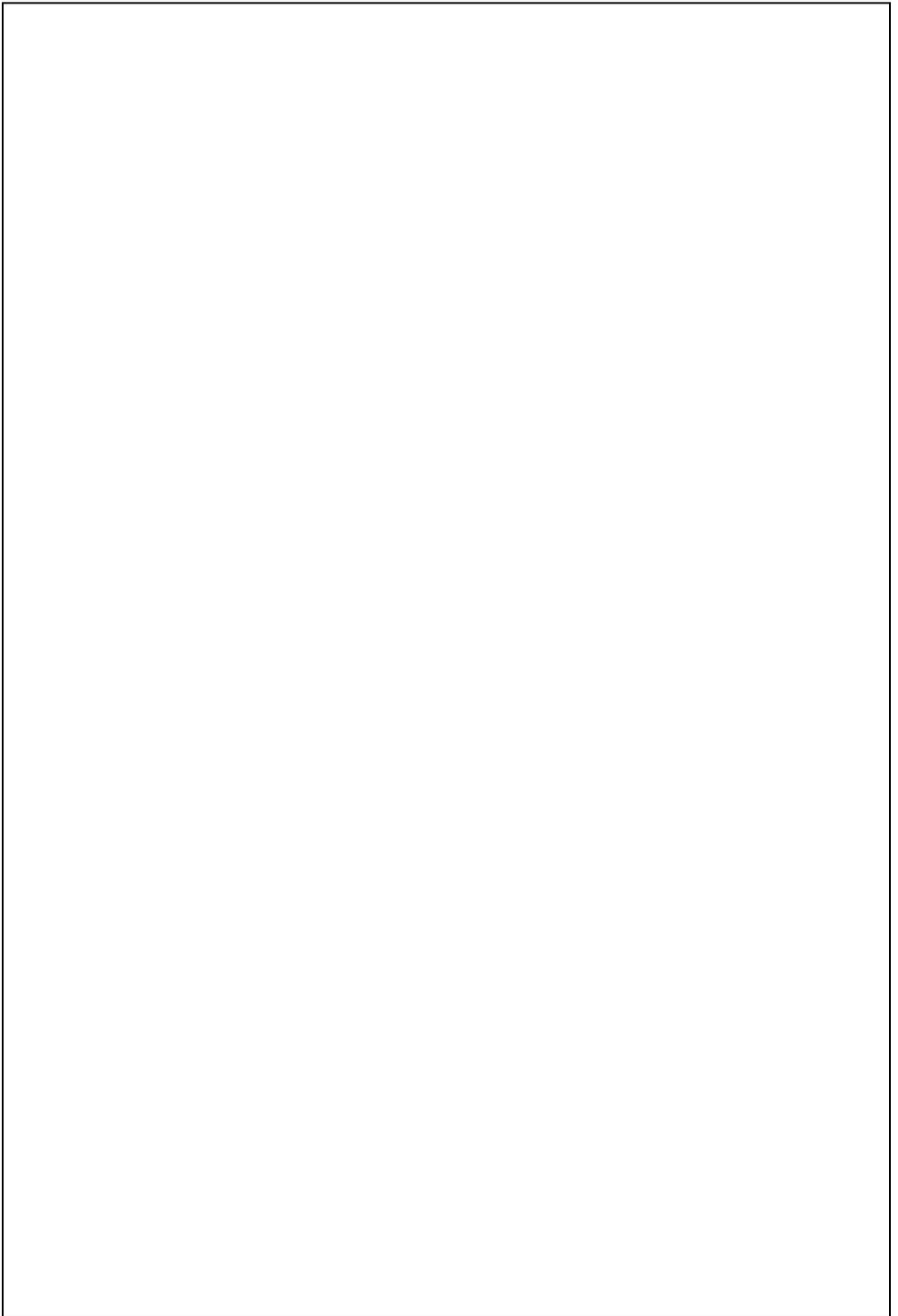
NEM's goal is for Malaysia to become a developed and competitive economy whose people enjoy a high quality of life and a high level of income resulting from growth that is both inclusive and sustainable. The Malaysian economy would be market-led, well-governed, regionally integrated, entrepreneurial and innovative.

The NEM transformation programme would be anchored on eight Strategic Reform Initiatives (SRIs), namely:

- Re-energising the private sector to drive growth
- Developing a quality workforce and reducing dependency on foreign labour
- Creating a competitive domestic economy
- Strengthening the public sector
- Transparent and market-friendly affirmative action
- Building the knowledge base and infrastructure
- Enhancing the sources of growth
- Ensuring sustainability of growth

FMM at its Council meeting on March 31, 2010 issued a press statement, which was subsequently reinforced and expanded into a full submission to the NEAC on May 17, 2010. FMM's position paper had also been extended to the Prime Minister's Department, Ministers of International Trade and Industry, Human Resources, Higher Education and the Economic Planning Unit.

This booklet is published and circulated to inform members on FMM's views and proposals on this very important national policy i.e. the NEM.



**FEDERATION OF MALAYSIAN MANUFACTURERS**  
**Views and Proposals on the**  
**NEW ECONOMIC MODEL**

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Malaysia is at a crossroad and its competitive edge has declined against other emerging economies. The New Economic Model (NEM) is expected to arrest this decline and to strengthen the market-based economy, capable of attracting a higher level of investments and operating at enhanced levels of efficiency and productivity. The Federation of Malaysian Manufacturers (FMM) endorses the Government's recognition of the need for such a new economic model to uplift and to bring Malaysia forward.

2. The Federation is encouraged that the NEM would be emphasising transparency and meritocracy in government policies and programmes, in government procurement, in the disposal of Government Linked Companies' (GLCs) assets in non-core areas, and to approach affirmative policies based on need and not race. GLCs should continue to expedite their divestment from non-core areas to reduce their market dominance of specific market segments and the crowding out of private investments and activities.

3. FMM also supports the announcement of a transparent and open tender process, including on-line publication of tender awards from April 1, 2010. This initiative would check rent-seeking behaviour and patronage. Providing greater capacity building programmes would be more effective in the long run than the use of subsidies.

4. FMM also welcomes the NEM's support for innovation, entrepreneurship and risk-taking, recognition of the role of highly skilled and trained professionals in upgrading productivity and the need for brain gain- both local and overseas.

## **ENSURING SUCCESS OF NEM**

5. Malaysia has to catch up on many aspects in order to achieve a higher level of industrialisation, a high income economy and developed nation status. Malaysia has lagged behind the other Asian Tigers namely South Korea and Taiwan in terms of upgrading of operations (*away from labour-intensive activities*), value-creation, productivity and innovative activities.

6. In FMM's view, factors vital to the country's efforts to achieve a higher level of industrialisation and to ensure the NEM's success are:

- a. The need for Malaysia to be committed to undertake **structural changes to resolve longstanding problems, especially in critical areas like education, the foundation to human capital development.**
- b. There needs to be **strong political will and commitment at the highest levels** to follow through on structural changes to make the NEM achievable.
- c. The commitment of political leadership at the highest level needs to be supported with **hands on monitoring down to the grass-root levels,** reminiscent of the 'operations room

administration' of Tun Razak in order to ensure faithful NEM implementation.

- d. **To continuously generate momentum and support** for the NEM at all levels, the Government must rally the support of the *rakyat* and engage them *to* work effectively together to achieve the NEM.

## **STRUCTURAL CHANGES**

7. Challenging structural changes include the following:

- a. De-politicising the economy, education, religion and race to strengthen inclusiveness and competitiveness,
- b. Upholding meritocracy in every aspect of nation building,
- c. Revamping the education system,
- d. Emphasising a market-based economy and use of market-based mechanisms,
- e. Sustaining the fight against corruption,
- f. Adopting a truly integrated approach in implementing the NEM across all Ministries, Agencies, State and Local Authorities,
- g. Restoring trust and confidence in the judiciary and law enforcement agencies.

## **Emphasis on Meritocracy**

8. FMM strongly advocates that meritocracy should be the underlying principle in every aspect of nation building, in government programmes and policies as a highly desired value among all Malaysians. Meritocracy based on performance and excellence should be recognised and rewarded in support of high levels of quality, standards and productivity of the nation.

9. The Government should only need to determine the broad macro policy directions. The Government should not be micro-managing businesses. Micro-managing of business activities makes the operating environment uncertain and opens up opportunities for abuses. Equally important is the need to allay the fear of not being able to compete fairly based on meritocracy.

10. Meritocracy should be applied to:

- a. Reinforce capacity and capability building programmes;
- b. Results-based assistance programmes, including financing for SMEs;
- c. Market-based mechanisms for approvals.

## **Revamping Education System**

11. A high income economy has to be supported by a high quality workforce that is multi-skilled, creative, innovative, globally competitive and capable of driving productivity to higher levels. The education system must be able to produce manpower of such high calibre.

In this respect, the education system should be **merit-based** if we are to remain globally competitive moving forward.

12. As highlighted in The World Bank's publication, *Malaysia Economic Monitor – Growth through Innovation*, April 2010 issue, some 40% of the 1,400 firms sampled reported skills as a key investment climate obstacle across the board, with particular concern over technical/professional skills, communication, IT, English proficiency and creativity/innovation at the top for both production as well as professional workers.

13. The performance of Malaysian 13 year olds in Mathematics slipped in ranking from 10 (2003) to 20 (2007) and scoring from 508 to 474 in the corresponding years. For Science, ranking improved slightly from 20 to 21, but scoring dropped from 510 to 471 in the same period.

14. The report had therefore emphasized the need to strengthen the education system, which would inevitably take time. In the meantime, Malaysia should tap on the global talent pool to close the gap between supply and demand for such talent.

15. In FMM's view, strengthening the education system should include the following initiatives:

- a. Improving the quality of teachers and lecturers;
- b. Re-introducing English as the medium of instruction at all levels, particularly in science and mathematics;

- c. Reviewing the academic grading system;
- d. Maintaining the 60:40 ratio in Science & Technical vs Arts admissions;
- e. Producing employable graduates;
- f. Greater selectivity in granting university status
- g. Striving for better rankings among local institutions of higher learning;
- h. Improving vocational and technical education.

### **Sustaining the Fight on Corruption**

16. A strong will to fight corruption must be translated into building institutional capacity to uphold the rule of law, promoting ethical behaviour and enhancing integrity at all levels in both the public and private sectors. FMM understands that Treasury had issued a circular on April 1, 2010 to all government departments to sign the Integrity Pact with suppliers, who would be required to make a statutory declaration that they had not and would not pay bribes. Main contractors are also held responsible for sub-contractors. FMM views this as a step in the right direction. FMM hopes to see expeditious enforcement of the integrity pact particularly in mega projects as well as in all procurement agencies and departments.

17. There is also an urgent need to restore trust and confidence in the judiciary, in the rule of law and in law enforcement agencies, all of which are critical to enhancing Malaysia as a safe and secure destination for investment.

## **Integrated Approach in Achieving NEM**

18. FMM is strongly of the view that there must be an integrated approach in implementing policies and programmes to achieve the NEM which is not only about meeting economic targets. The NEM should not only review economic initiatives but also the implementation process. An integrated approach is required to address the following:

- a. Unclear lines of responsibility, lack of coordination in policy implementation and fragmented ownership of policies;
- b. Comprehensive rolling out and implementation of policies;
- c. Rigorous monitoring of implementation.

## **Sustaining Momentum and Political Will**

19. FMM reinforces its concern over sustaining momentum and political will to undertake structural changes, some of which are mentioned above. Many of these structural changes would be politically challenging because they require the de-politicising of the economy, education, religion and race to strengthen inclusiveness and competitiveness. The Government has to be able to steer the nation to soldier on the correct true path, keep a strong faith with the economic goals and keep whatever is needed to achieve these goals clearly in sight at all levels and among all stakeholders.

## **FMM'S RECOMMENDATIONS**

20. Taking cognizance of the above, FMM's recommendations are:

**a. Capacity and Capability Building Programmes**

Meritocracy levels the playing field, promotes competition and enhances the nation's competitiveness. Mechanisms like quotas, licenses, approved permits, approved monopolies, etc should be gradually removed to allow competition and private enterprise to grow and flourish. The Government should instead review and reinforce programmes in building capacities and capabilities for those who are challenged. This would enable them to be better equipped to face intense competition both domestic and international.

**b. Results-based Assistance**

FMM further recommends to the Government to introduce results-based assistance, as opposed to the current assessment based on projected/targeted outcomes and deliverables. Benefits to be derived from a results-based assistance approach are:

- i. Evaluation is based on performance. The approval criteria and process is clear and transparent without the usual terms and conditions and deliverables, characteristic of current government financing based on projected outcomes. These terms and

conditions and deliverables are constraints to the entrepreneur, especially in the manner in which he can deploy the funds and operate his business;

- ii. Approval criteria and processing could be simplified because the Government need not undertake risks arising from uncompleted projects, siphoning of funds, failed transfer of technology and/or knowledge, etc. The entrepreneur has already assumed these business risks by committing his own resources and secured the required results. He is reimbursed and rewarded for the successful venture;
- iii. Removing encumbrances and constraints to approvals would expedite processing and enhance access to assistance. Making government programmes more attractive to entrepreneurs encourages them to respond to Government promoted activities.

**c. Results-based in Financing for SMEs**

Results-based assistance could be applied to the giving of loans to SMEs by financial institutions. Financing of SMEs is important to the growth of domestic investment activity. Instead of collateral-based lending and credit facilities tied to guarantees or deposits, SME financing could consider alternatives such as:

- i. Financing based on confirmed sales proceeds;
- ii. Allowing SMEs to take a second charge on their property i.e. the difference between the market value of a charged property and an outstanding loan could be used to give a second loan of equivalent value to the SME.

Concurrently, the application process should be further simplified and standardised so that loan application documents are easily transferable between financial institutions. Most SMEs are not competent in drawing up good revenue models and business plans. Hence, the transferability of documents would save costs for SMEs, which could use the same set without having to review and reorganise to fit each financial institution's requirements.

**d. Market-based Mechanisms for Approvals**

- i. Market-based mechanisms allow the forces of demand and supply to determine outcomes. Market-based mechanisms therefore operate effectively to influence market behaviour without introducing distortions. These mechanisms reduce bureaucracy, are predictable and relatively easy to use, removing opportunities for abuse and corruption.

An illustration of the efficacy of market-based mechanisms is the levy

mechanism to reduce dependence on foreign workers. Companies requiring manpower would be allowed to recruit any number of foreign workers without hassle in obtaining approvals, but have to pay progressively higher levy rates (that have been preannounced to the industry) for higher dependence on foreign workers. Instead of imposing restrictions on the levels of dependency in each sector, job positions, and sources of supply, the levy is used to regulate the demand for foreign workers.

With the imposition of higher levies, the demand for foreign workers would then be a function of business decisions. The rate of levies applied is used to effectively change business behaviour with respect to dependence on labour and ultimately the decision to remain labour intensive, to automate (particularly with availability of financial assistance) or to move off-shore.

- ii. The levy mechanism should also plough back the levies collected to provide financial assistance to spur the industries to automate, to increase skills training and to provide facilities such as crèches (company or community based) to raise female participation in the workforce.
- iii. Equity conditions are another form of micro-managing of businesses, i.e. not market-based. While the FIC guidelines had been reviewed, equity conditions are

still imposed in some services sub-sector. In this respect, liberalisation of the 27 services sub-sectors should also remove equity conditions, specifically for 3-star hotels. The establishment of new hotels would contribute towards more economic activities arising from a more dynamic services sector.

Liberalisation should also be further expanded for the logistics and transport services to cover haulage and ports; as well as in other critical services.

**e. Restoring High Status of Teaching Profession**

The quality of teachers and lecturers needs to be improved and the most qualified should be effectively attracted to contribute their talents to the teaching profession to become a profession of choice as was the case decades ago. Today, the teaching profession is a profession of last resort.

In this respect, FMM strongly recommends that the Government implements a transparent “Master” teacher/lecturer programme, including bringing back qualified retirees and employing education experts both local and foreign to help improve teaching methods, work culture and discipline to guide and retrain the younger generation of teachers, including assessing their performance. Teachers should be professionals.

Hence, pre-requisites to join the teaching profession should be tightened. Teachers should also be remunerated at levels consistent with attracting the best brains as in Singapore. Not every unemployed graduate would make a good teacher, especially to teach the English language or Mathematics and Science. Ill-qualified teachers are detrimental to the country's development of human capital.

**f. Greater Autonomy and Funding for Mission, Vernacular and Independent Private Schools**

- i. Mission and vernacular schools of high repute that have long been established in the country with decades in their history of education, should receive allocations from the Government to improve their facilities and for expansion.
- ii. Well-recognised independent private schools should also receive assistance such as putting their teaching staff's remuneration under the Government's payroll. These schools are also part of the building blocks of the country's education system and should receive full support.
- iii. The Parent Teachers' Association (PTA) or Board of Governors of the above types of schools should be given some autonomy to govern the school in the most effective and productive manner. They should have a say in the hiring and firing of teaching staff, and the flexibility to upgrade their school's

syllabus and co-curriculum while ensuring that their students would be able to sit for national examinations. For instance, if the PTA wishes to continue using English to teach Mathematics and Science, the school should be allowed to do so.

- iv. There has been interest by alumni groups of students to take over some of the existing mission and vernacular schools to transform them back to the excellent institutions they used to be. Consideration should be given to such private financial initiatives on a pilot basis to enhance educational excellence at relatively lower cost to government.

**g. Reinforce Use of English in Education**

English being the language of communication in mathematics and science must be re-introduced as the medium of instruction in schools, particularly in primary, secondary, tertiary, vocational and industrial training institutions. Core subjects like mathematics and science, engineering, ICT and medicine are the foundation skills for acquiring scientific knowledge and technology.

English is also used widely at the workplace, in business, in international trade, academia and in communications with governments and authorities worldwide. Competency in English enhances a country's competitiveness because it:

- i. Attracts investors - business partners and workers are able to communicate effectively, which in turn improves the ease of doing business and boost investors' confidence;
- ii. Facilitates acquisition of knowledge to continually improve technical capacity and capability, as well as access to training opportunities especially at international levels, leading to the formation of a strong and vibrant knowledge-economy and indigenous capacity;
- iii. Strengthens our ability to represent the interests of the nation in international trade negotiations and other meetings;
- iv. Increases the attractiveness of Malaysia as a hub for education for students from regional countries.

FMM reinforces that English must be taught starting from early years as language competency could only be acquired over time and through frequent usage. Students should also be given incentives to learn a second international language eg French, Spanish, German, Mandarin, Arabic to prepare them for an increasingly global business place. FMM would like to emphasise that Bahasa Malaysia remains as the language of national unity.

## **h. Review Academic Grading System**

FMM views with concern the standard of academic grading for national examinations and at institutions of higher learning. Obtaining a string of A's has become the norm, rather than the exception. It is unclear whether the current academic grading system had created an artificial group of "A" students as a result of grading on a low benchmark scale.

A low standard of academic grading contributes to the incidence of unemployable graduates that has an adverse impact on the country's efforts to become a high income economy.

Based on a simple comparison of academic grading at tertiary level of countries like Japan, USA and UK, all of which have institutions of higher learning ranked among the top 100 in the world, several Malaysian universities appear to have lower standards as indicated in the following tables:

<b>Grade (G)</b>	<b>Japan</b>	<b>US</b>	<b>UK</b>
A	90 – 100%	90 – 100%	80 – 100%
B	70 – less than 90%	80 – 89%	70 – 79%
C	60 – less than 70%	70 – 79%	60 – 69%
D		60 – 69%	50 – 59%
E			40 – 49%
F	below 60%	below 59%	

G	UTM	UM	UT MARA	UMP
A	80 – 100	75 – 100	75 – 100	75 – 100
B	65 – 79	60 – 74	60 – 74	60 – 74
C	50 – 64	45 – 59	47 – 59	47 – 59
D	40 – 49	35 – 44	40 – 46	40 – 46
E	0 – 39		30 – 39	25 – 39
F		0 – 34	0 – 29	0 – 24

Figures above (range of marks) are in %

UTM – Universiti Teknologi Malaysia

UM – Universiti Malaya,

UT MARA – University Teknologi MARA

UMP – Universiti Malaysia Pahang

Lowering of academic standards is not sustainable and would not be able to support a high-income economy with the necessary skills to adopt and adapt technologies and to secure higher productivity.

The academic grading at secondary and tertiary levels, including the awarding of Honours degrees should therefore be transparent and of a standard that is benchmarked against the top educational institutions around the world.

**i. Maintain 60:40 Ratio in Favour of Science & Technical Admissions at Tertiary Level**

FMM notes with concern the following:

- i. The World Bank's *Malaysia Economic Monitor*, April 2010 reported that the performance of Malaysian 13 year olds in Mathematics slipped in ranking from 10 (2003) to 20 (2007) and scoring from 508

to 474 in the corresponding years. For Science, ranking improved from 20 to 21, but scoring dropped from 510 to 471 in the same period.

- ii. Although the Malaysia Plans targeted admissions in institutions of higher learning to be at the ratio of 60:40 in favour of Science & Technical over the Arts, the Ministry of Higher Education's statistics showed that from 2002 to 2005 the average ratio was 52:48. From 2006 to 2008, the ratio was reversed with higher admissions into the Arts.

Science & Technical education must be given strong emphasis. Instead of raising admissions for the Arts, the Government should maintain the original 60:40 ratio, which could have motivated students to take a different course of training. As it is, many Science students take up Commerce and Law at tertiary level, further contributing towards higher admissions in the Arts stream.

**j. Produce Employable Graduates**

Despite local institutions of higher learning producing an average annual output of 200,000 graduates, the manufacturing sector continues to face difficulties in recruiting skilled workers. While graduates have personal preferences to work in the civil service, GLCs and MNCs, employers on the other hand find many local graduates not employable. This could be attributed mainly to weaknesses in the quality of education and academic grading.

FMM recommends the following measures:

- i. Local graduates still lack language competency and writing skills, problem solving and social skills despite having such additional courses in their final year curriculum. The Government should review these courses to further strengthen them. The Government should also consider working with industry-based institutions as a “finishing school” to provide soft skills training and counselling for final year students.
- ii. Courses in institutions of higher learning must also meet standards comparable to top foreign universities. They should also be linked with international professional bodies, wherever applicable. Linking with professional bodies would facilitate graduates in their registration as professionals in their field of study such as in the case of IEM, to become qualified engineers.
- iii. Internship or industrial training should also be “institutionalised” into the university curriculum. An extension in the duration of university courses to four years would allow universities to carry out six consecutive months of industrial training. Currently, universities are not able to accommodate more than six weeks of internship because the course duration is three years. Internship programmes should be undertaken

before degrees are awarded. Universities can award one certificate each for industrial training and the academic course.

- iv. Universities and industrial training institutions should work together with industries located in their vicinity by catering to the industries' training needs, allowing industries to make use of their facilities for training and research collaboration. In return, the industries would be able to offer to universities and training institutions trainers and research partners who have practical industry experience and know-how. Other outcomes are more employable graduates trained with the skills needed by the industry, the enculturation of lifelong learning and greater commercialisation of public R&D.

**k. Greater Selectivity in Granting University Status**

The Government should be more selective in granting university status to educational institutions. The quality of institutions would affect the quality of graduates.

As rightly observed by **Royal Prof Ungku Aziz** (at a book launching ceremony in *University Malaya in February 2009*), "academic standards and the quality of graduates may decline if more universities are set up in a short span of time....now, (we are) starting to produce **ekiben**

***daigaku*** (train–station lunchbox) universities where they offer a little bit of everything like a Japanese bento meal, and they all look the same...if left unchecked, Malaysia could face the same problems as Japan where the many universities and colleges set up to provide educational opportunities produced low-quality graduates...”

The Government should therefore resist converting polytechnics into universities and university colleges as graduates from these institutions have their own role to play in the economy. The criteria for granting university status must be clear and transparent, matching international benchmarks.

## **I. Striving for Improved Rankings**

Although the Malaysian Qualifications Agency (MQA) carries out ratings of public institutions of higher learning, the criteria (or indicators), frequency of review and results are not transparent to employers, parents and students. MQA ratings should be made public annually to increase awareness of such ratings and to encourage educational institutions to strive for improved rankings.

Open publication of such information would not only help to strengthen and maintain the integrity and standing of institutions of higher learning but would also become a transparent benchmark that is reviewed regularly and is consistent with international standards and measurements.

### **m. Improving Vocational and Technical Education**

FMM is also recommending that a master craftsman programme be set up for every vocational and technical skill. All vocational and technical skills should be certified like Germany's apprentice–journeyman–master model, where each skilled craft has their Chamber, which is a self governing public body that organises technical vocational education training and oversees the master craftsman examination.

A master craftsman is the highest professional qualification with a state–approved grade. The course includes theoretical and practical training in the craft, business and legal procedures. The qualification also allows the training of apprentices.

The upgrading from apprentice to journeyman to master is through having gained enough work experience under apprenticeship and sitting for examinations to be a journeyman. At least three years work experience as a journeyman followed by further training is required for upgrading to a master including an examination covering theory, practical, oral and in most crafts, the creation of a masterpiece. Many companies prefer a master craftsman to a university graduate as a technical manager because of their practical and theoretical training and business knowledge.

This model could be adapted for Malaysia to give the same level of recognition, including equivalent certification to vocational and

technical training as in Germany, lifting the status of skilled workers as craftsman instead of being categorized less flatteringly as blue collar workers.

**n. Ensure Holistic and All-rounded Education**

The NEM should ensure a holistic and all-rounded education system of high quality standards. School curriculum beginning from primary level should be skewed toward nation building and team building. The curriculum should encourage project based work and also team sports. It is important for the Government to provide more playing fields for schools.

**o. Building Institutional Capacity to Fight Corruption**

A strong will to fight corruption must be translated into building institutional capacity to uphold the rule of law, promoting ethical behaviour and enhancing integrity at all levels in both the public and private sectors. In this respect, education on ethics and integrity should start in the school system and be incorporated into the syllabus.

FMM supports the recommendation of Transparency International – Malaysia to the Government to include a Board resolution in addition to the supplier's statutory declaration. The Board resolution is to secure the company's board of directors' commitment and responsibility, thus further strengthening and extending ethical business practices throughout

the business unit in dealings with the Government.

**p. Restoring Confidence in Judiciary and Law Enforcement Agencies**

Justice must be administered fairly, without double standards to regain public confidence and to remove poor public perception of the judiciary and law enforcement agencies.

In this respect, FMM commends the recent establishment of the new commercial courts in contributing towards enhancing confidence in the judiciary through the expeditious resolution of commercial cases and clearing of backlogs; and most importantly, in the appointment of judicial commissioners who are co-opted from the private sector for their expertise in various aspects of commercial law.

Reinstating confidence in the judiciary would encourage businesses to stipulate in their contract to have their dispute resolution arbitrated in Malaysia, rather than in third countries.

In the case of law enforcement agencies, it is important that security be given high priority. While the Government's transformation programme had brought about a decline in the incidences of crime, law enforcement agencies must be diligent in taking proactive measures to ensure that the crime index in the country continues to decline and remain low.

**q. Addressing Implementation Challenges**

Unclear lines of responsibility and lack of coordination in policy implementation has often resulted in several agencies being in-charge and at times, in conflict with each other and not getting the outcomes as anticipated.

The establishment of MIDA's handholding programme for new investors is a clear example of the lack of coordination and joint ownership of objectives among government agencies. While MIDA aggressively secured investments, new investors faced numerous obstacles when setting up their business in Malaysia. MIDA had to intervene and handhold these new investors.

Other examples of lack of coordination include foreign workers employment policies and procedures; review of education and training policies and programmes, and previously, in commercial vehicle licensing and public transportation; and entrepreneurship development. The review of education is "isolated" even though it is critical to the economic well-being of the nation.

Unclear lines of responsibility and fragmented ownership of policies has resulted in "turf" issues, sometimes creating competition between agencies and the general reluctance of Ministries and agencies to share information. The private sector is burdened with numerous and repeated consultations and requests for inputs from different agencies on the same subject matter. Such issues do not augur well and send mixed

signals about policies and is a waste of scarce resources in government.

The NEM needs to adopt a truly integrated approach to national and economic development to ensure that it builds and receives the confidence of citizens and allows for inclusiveness which is central to the model. Policies have to be clearly spelt out, ownership of policies outlined and monitoring of the implementation at the highest levels to ensure that the outlined outcomes are achieved.

**r. Comprehensive Rolling Out and Implementation of Policies**

Policy pronouncements are often made without the accompanying implementation and execution action plans. FMM is strongly of the view that the Government should always ensure that the implementation and execution action plans are drawn up expeditiously after policy announcements are made to minimize confusion and disruption.

In this respect, FMM would like to highlight specifically that in rolling out the country's High Speed Broad Band project, the Government must ensure that the last mile connection is set up expeditiously, if not concurrently with the roll-out to all industrial estates throughout the country, and not only within the Klang Valley. A high income and globalised economy requires the extensive use of telecommunications and the Internet to exchange technical drawings and designs with overseas buyers.

**s. Rigorous Monitoring at the Highest Level**

There must also be rigorous monitoring of government agencies from Federal to State to local authorities levels. FMM strongly recommends that the Government reintroduce the Tun Abdul Razak 'operations-room' style of administration with on the ground spot checks by the highest levels. The Razak administration approach would be most effective and efficient in dealing with issues of poor work discipline, corruption as well as bring to surface the impediments and resource constraints in implementation.

**t. Sustaining Momentum and Political Will**

In order to keep the national and economic goals in clear sight at all levels and among all stakeholders, it is imperative for the NEAC team to continually engage with stakeholders, including with politicians to enhance their understanding of the NEM and the pressing issues, especially on tough actions that are needed and to reinforce that stakes are high. The NEM could well be the country's last chance to catch up and once again be ahead of competitors in developing economies namely, China, India and even our ASEAN neighbours Indonesia, Thailand and Vietnam. The Government must create a momentum for change and sustain it.

## **Encouraging Investment in High Value-Added Activities**

21. The NEM should strongly encourage the manufacturing sector to move the entire value chain up to a higher level of value-added activities. A key factor needed to achieve this objective is to expand the pool of home grown original design manufacturers who are capable of designing and producing new products and processes. There are various micro scenarios to move up the value chain:

- a. Expanding into distribution/marketing in addition to assembly like Dell;
- b. Assembly and marketing within short lead times like Bonia;
- c. Focus on R&D without manufacturing, assembly or distribution like Ericsson.

22. Instead of the current approach of providing different incentives for different types of business activities, FMM recommends that the Government use corporate tax rates to encourage and reward innovation throughout the value-chain i.e. to companies that invest in high value-added activities with innovation in product development and/or production and/or distribution.

23. Companies investing in such activities could be given tax exemption for the first five years, followed by a low tax regime at half of the prevailing corporate tax rate for the next five years. Foreign investors could be required to fulfill conditions such as carrying a certain percentage of their R&D in Malaysia. Using the corporate tax rate also ensures transparency and certainty to companies, instead of the current burdensome application and approval process.

## **CONCLUSION**

24. The above are some of the FMM's initial views and recommendations. FMM strongly believes that the implementation and dedicated follow-through of these difficult structural changes would in the long run contribute significantly to enhancing unity as a nation and strengthen investor confidence. These changes would enhance equity, consistency, credibility, certainty, transparency, and efficiency in the use of resources, address corruption and correct rent seeking behaviour and patronage in the system.

25. Key to the FMM's proposals is the need to change the education system in particular to ensure adequate supply of high quality indigenous manpower with greater innovative capacity to achieve a high income economy and high value-added industrialisation.

26. The FMM is confident that higher incomes for all Malaysians will be a reality if the NEM successfully deals with the existing structural constraints to the economy, promotes an environment conducive to free enterprise and creativity, creates opportunities for sustainable economic growth and enhances progress supported by real capacity and capabilities.

27. The FMM wishes to congratulate the Government for the forward thinking NEM. The FMM assures the Government of its strong commitment and help in the implementation of the NEM.

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*Views and further recommendations from FMM  
members are welcomed.*

*LCS/ml/clh/pw  
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