

Chapter 2

Challenges to realising Vision 2020



In 1991, Tun Dr Mahathir Mohamad, then Prime Minister, unveiled a bold new vision for Malaysia. Our country, which had in the previous decade grown its GDP at an average rate of 8% p.a., required a new objective and performance target. This was “to become a developed country by a certain period of time. We decided that the logical, convenient and appropriate time was the year 2020. For optometrists, 2020 means perfect vision, and we needed to have a perfect vision for our future.”¹⁰ Practically, this meant an extremely optimistic projection of a growth rate of 7% p.a. for the 30 years between 1991 and 2020.

Furthermore, we wanted our development to be measured by more than GDP. We did not want to sacrifice our moral character for economic growth. We wanted to ensure that our society advanced as a multi-racial society and that any wealth creation was shared.

“...each of the (developed countries) has its strengths. But each also has its fair share of weaknesses. Without being a duplicate of any of them we can still be developed. We should be a developed country in our own mould. Malaysia should not be developed only in the economic sense. It must be a nation that is fully developed along all the dimensions: economically, politically, socially, spiritually, psychologically and culturally. We must be fully developed in terms of national unity and social cohesion, in terms of our economy, in terms of social justice, political stability, system of government, quality of life, social and spiritual values, national pride and confidence.”

Tun Dr Mahathir Mohamad, “Working Paper – The Way Forward” presented to the Malaysian Business Council, 28 February 1991

2.1 We have ambitious economic and social goals for 2020

With Vision 2020, we committed ourselves to nine goals, encompassing economic, political, social, spiritual, psychological and cultural dimensions of our growth. Collectively, they made for a set of challenging targets for Malaysia. It is timely now, with just a decade to go, to remind ourselves of the prize – how life in Malaysia will look and feel – when we achieve our goals:

- We will be truly united and integrated, a ‘Bangsa Malaysia’ with a sense of common and shared destiny, living in harmony and in full and fair partnership
- We will be a society with faith and confidence in ourselves, distinguished by the pursuit of excellence and respected by the peoples of other nations
- We will be a mature democratic society, practising a form of mature, consensual, community-oriented Malaysian democracy that will be a model for many developing countries
- We will be a fully moral and ethical society
- We will be a liberal and tolerant society, free to practise and profess our customs, cultures and religious beliefs, and yet feeling that we belong to one nation
- We will be a scientific and progressive society, contributing to the scientific and technological civilisation of the future
- We will be a fully caring society
- We will be an economically just society, with fair and equitable distribution of the wealth of the nation and full partnership in economic progress

¹⁰ Tun Dr Mahathir Mohamad, “Revisiting Vision 2020: New Challenges for Malaysia”, From Readings on Development: Malaysia 2057, eds. Nungsari and Suryani, Kuala Lumpur: Khazanah Nasional Berhad, 2009, p. 4.

- We will be a prosperous society, with an economy that is fully competitive, dynamic, robust and resilient

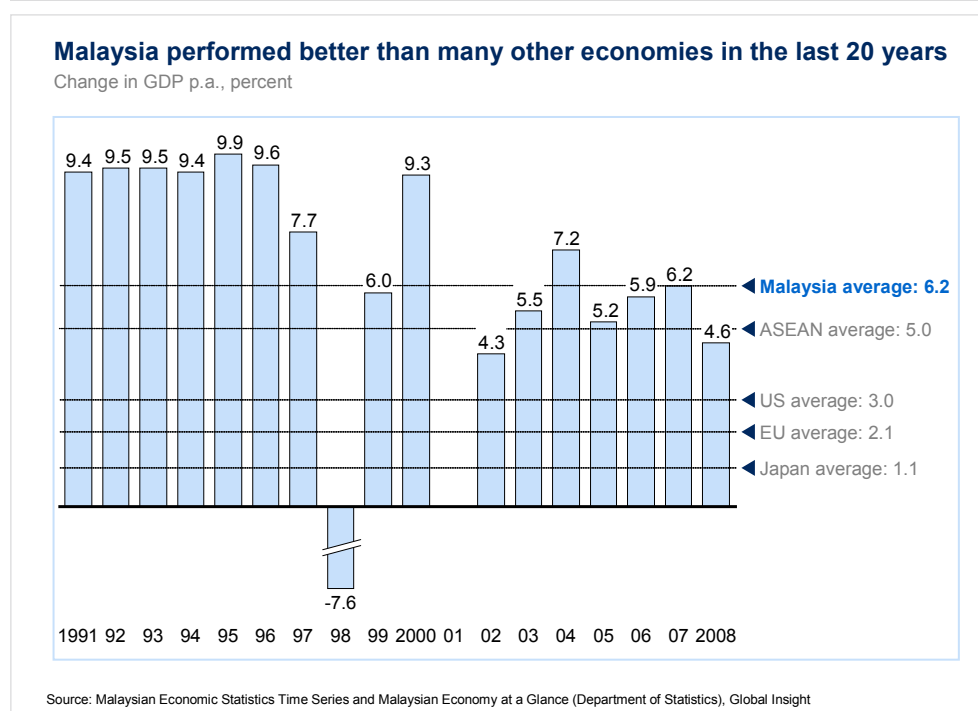
2.2 We have progressed since the announcement of Vision 2020

Under the guidance of past and present leaders and through the hard work of the rakyat we have made progress on our journey towards 2020.

2.2.1 Our economic development has surpassed that of many developed countries

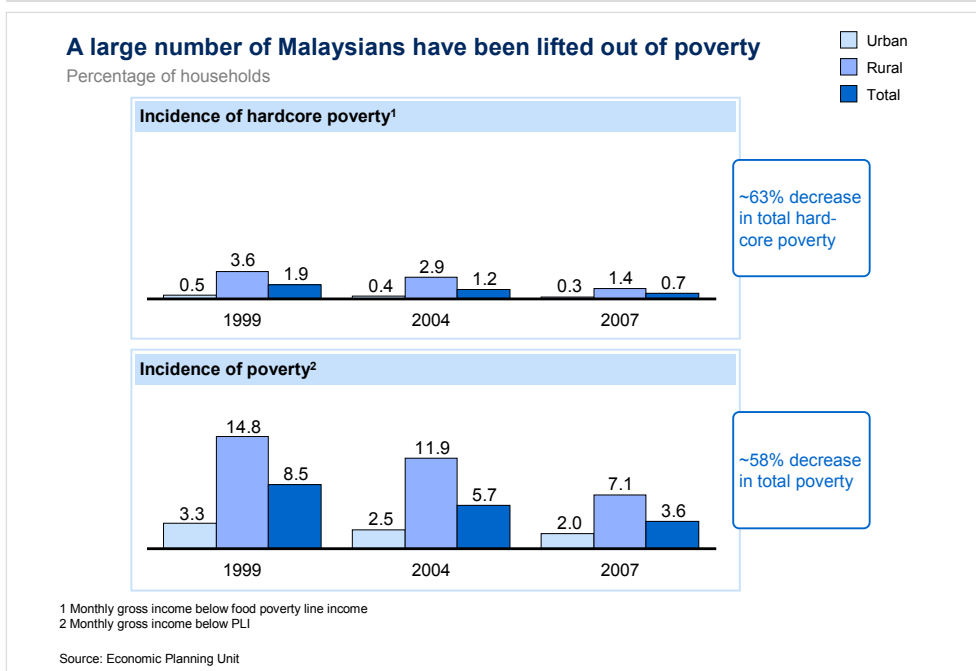
During the period 1991–2008, the Malaysian economy grew at an average rate of 6.2% p.a. (Figure 2.1). We performed better than ASEAN (Association of Southeast Asian Nations) overall and better than many developed economies such as the European Union, Japan and the United States of America. Malaysia was sufficiently resilient to withstand regional and global challenges, such as the 1997–98 financial crisis, the post-September 11 (2001) recession, the outbreak of Severe Acute Respiratory Syndrome (SARS) in 2002–03, and most recently, the global recession in 2008–09. In fact, Malaysia's independent response to the 1997–98 financial crisis – leveraging currency and capital controls effectively – has been lauded by many renowned global economists.

Figure 2.1



While the country has moved forward, we have also strived to protect the most economically disadvantaged groups. This can be seen in reduced poverty and hardcore poverty rates (Figure 2.2). While more needs to be done, as discussed in Chapter 9, we have made steps in the right direction.

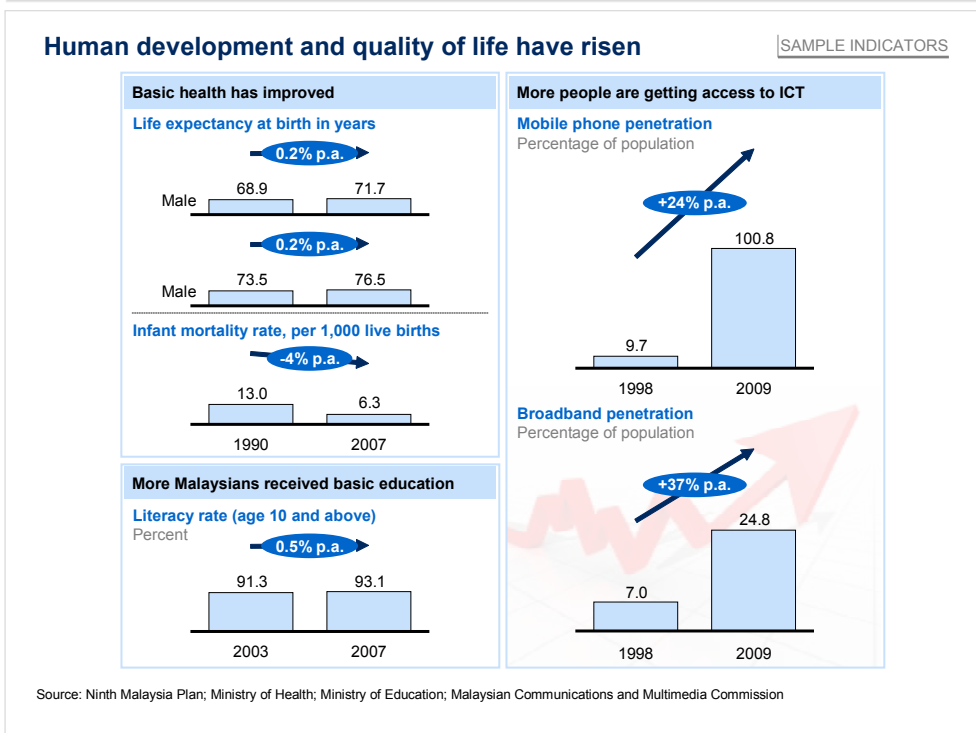
Figure 2.2



2.2.2 Our human development and quality of life have improved

Over the past two decades, life in Malaysia has improved tremendously, and we have much to be thankful for. Our people are living longer (as evidenced by lower infant mortality and higher life expectancy – Figure 2.3). More are receiving basic education required to read and write. And we have become increasingly knowledgeable about technology. Rapidly rising penetrations of cellular, Internet and broadband communications have enabled a proliferation of mobile and Internet content and applications, making our lives richer, more enlightened and increasingly convenient.

Figure 2.3



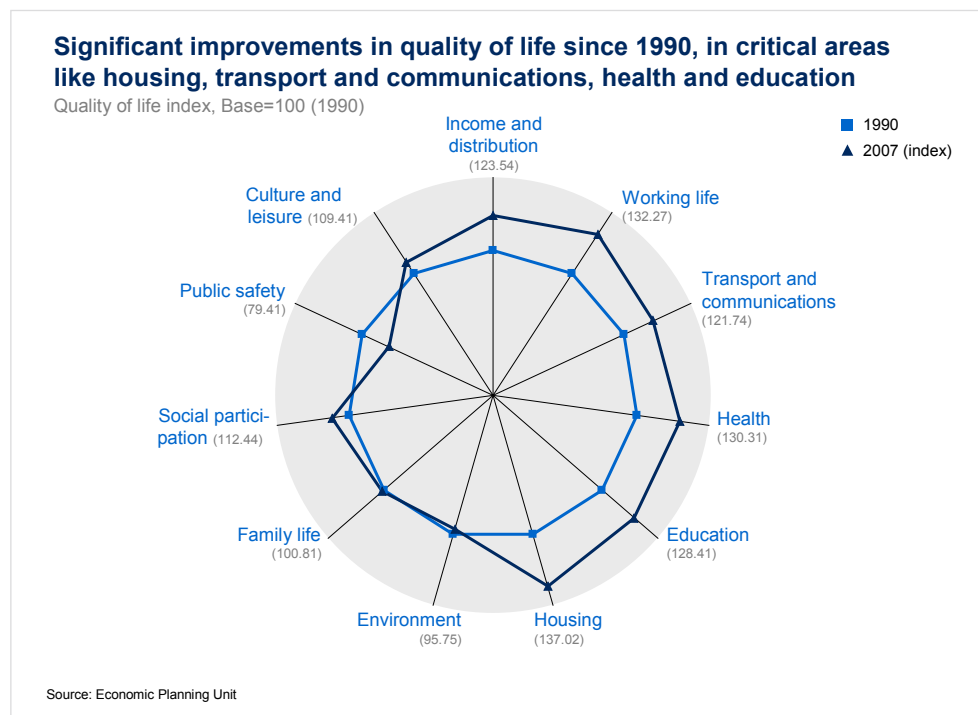
In addition, Malaysia has progressed significantly in the provision of basic infrastructure. For instance, in each year from 2006 to 2008,

- About 220 kilometres of roads were built or upgraded
- About 10,000 households benefitted from electrification
- About 18,000 households were given access to clean or treated water
- About 7,000 houses were built or restored in rural areas to benefit the poor

Indeed, domestic and international indices attest to Malaysia's ever-increasing quality of life. Since 1990, the United Nations' Development Programme (UNDP) Human Development Index (HDI), which measures changes in components including life expectancy, literacy and income per capita, has recorded steady improvement in Malaysia's score. Our score rose from 0.737 in 1990 to 0.797 in 2000 and 0.829 in 2007.

Our own Economic Planning Unit's Quality of Life Index is another example. The index measures changes in critical areas of Malaysian quality of life since 1990 (baseline score 100). Over the last two decades, the index shows improvements in areas except the environment and public safety (Figure 2.4).

Figure 2.4



2.2.3 Our civil service has progressed and adapted itself to the changing environment

The past two decades have also witnessed ever-increasing demands from the rakyat for improvements in the quality and quantity of public services. In response, we have taken on this challenge by implementing various programmes aimed at delivering services to the rakyat faster and more conveniently. Notable thrusts have included the following:

- a. **Expanding usage of technology:** For instance, the Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) has led our efforts in implementing electronic government and the use of information and communications technology (ICT) across government ministries and agencies. Award-winning and globally acclaimed applications such as the myGovernment and eKL portals have let an increasingly Internet-enabled rakyat access public services faster and more conveniently.

Another popular application that has made lives more convenient is the electronic filing of personal income tax forms. Tax refunds for e-filed forms are processed in just 14–30 days now, compared to one year previously.

- b. **Increasing operational efficiency:** Examples of this include the establishment of a one-stop centre by the Special Taskforce to Facilitate Business (PEMUDAH) to expedite the incorporation of companies. In addition, our Immigration Department now boasts one of the fastest turnaround times in the world in the issuance of passports. These can now be issued within two hours.

Another reform to increase the efficiency of the business environment is the establishment of two new Commercial Court divisions to expedite the hearing of commercial cases and resolve them within nine months.

To further enhance delivery and coordination, we have started rolling out the use of a single reference number for each individual and company for all of their dealings across government agencies. The usage of MyKad numbers for individuals and business registration numbers for companies enables faster cross-referencing across multiple departments and agencies.

- c. **Building capabilities:** For example, the Public Service Innovation Project (PIKA) has been implemented, under the purview of the KSN, to select and train the best and brightest civil servants.

Further, in September 2009, we launched a cross-fertilisation programme for employees of government departments and government linked companies. This provides for cross-secondments to build exposure, skills and networks.

In another initiative to groom high-performing civil servants, we have upgraded the National Institute of Public Administration (INTAN) Bukit Kiara to a School of Government. This autonomous school would be administered professionally, facilitated by quality lecturers and collaborate with international institutions such as the Japan International Cooperation Agency, Commonwealth Association for Public Administration and Management, and the Civil Service College of Singapore.

2.3 Despite past achievements, at the current pace, achieving our 2020 aspirations will be challenging

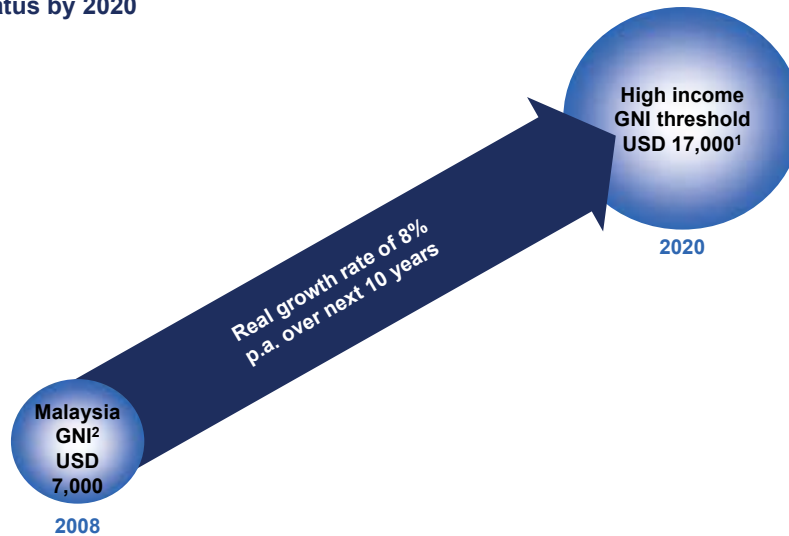
While we should be proud of our accomplishments since 1991, tremendous effort is still required to reach our economic and social goals within the next 10 years.

2.3.1 While we need a step increase in growth, we have actually slowed down and are exhibiting signs of the middle income trap

The World Bank's threshold for high-income economies, measured in terms of gross national per capita income (GNI) is USD 12,000 currently and is forecasted to increase to USD 17,000 by 2020. In 2008, Malaysia's GNI was USD 7,000. For us to cross the high-income threshold by 2020, over the next 10 years we must achieve real annual growth rates of roughly 8% (Figure 2.5).

Figure 2.5

Malaysia needs to grow by 8% p.a. to achieve developed nation status by 2020



1 At 2008 prices
2 Gross National Income

SOURCE: World Bank; speech by Prime Minister, Datuk Seri Najib Tun Razak at National Economic Action Council inaugural meeting, 28 August 2009

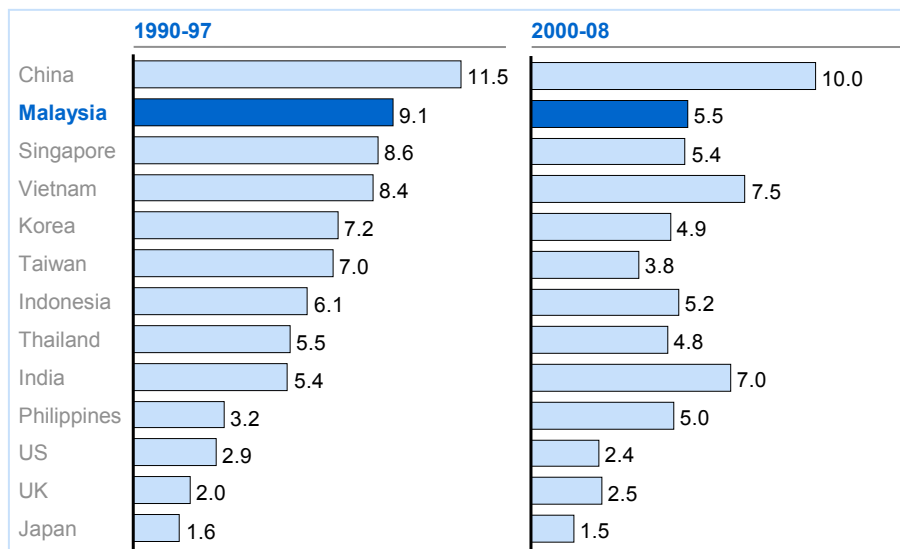
Two observations indicate that it will be challenging for Malaysia to grow by 8% p.a. until 2020.

First, Malaysia's growth rate has almost halved since the 1997 economic crisis, down from an average of about 9% p.a. in 1990–1997 (pre-Asian economic crisis) to an average of 5.5% p.a. in 2000–2008 (Figure 2.6).

Figure 2.6

Malaysia's growth slowed after the Asian economic crisis

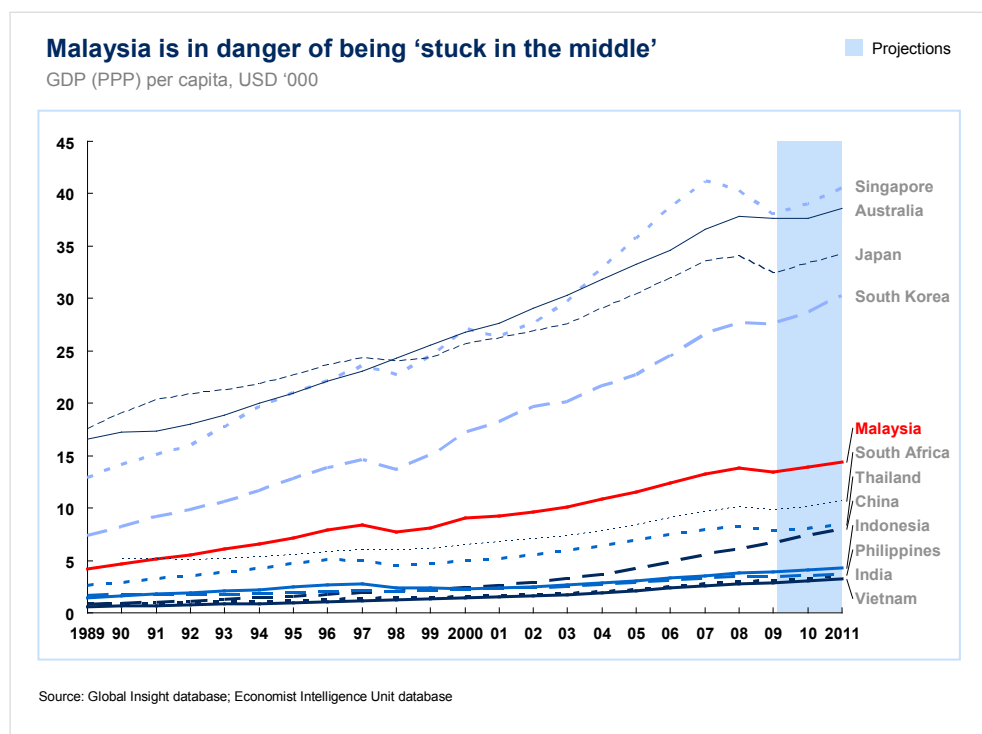
Percentage of GDP growth



Source: The Conference Board and Groningen Growth and Development Centre; Total Economy Database, January 2009 (in presentation to KNB Megatrends Forum by Datuk Seri Panglima Andrew Sheng)

Second, despite having made the early transition from a low-income to a middle-income nation, Malaysia has not managed to propel itself into the ranks of the higher-income nations. Instead, nations such as Singapore, Japan and South Korea are widening the gap between themselves and Malaysia (Figure 2.7). This is a phenomenon economists refer to as the middle-income trap.

Figure 2.7



Many factors have contributed to our slow growth. Among them is Malaysia being supplanted as a low-cost export and services base by emerging economies such as India, Vietnam and China. These large emerging economies, with their relatively low wage costs and sizeable domestic consumer markets, have been able to attract foreign direct investments (FDI) away from more established economies. As an illustration, the compound annual growth rate (CAGR) of FDI into Malaysia from 2000 to 2007 was only 1%, compared to 30% for India, 12% for Vietnam and 10% for China.

In addition, Malaysia's internal business environment and competitiveness has deteriorated. Our ranking in the World Economic Forum's Global Competitiveness Index (GCI)¹¹ has slipped from 21st place in 2007 to 24th in 2009.

2.3.2 We also have opportunities to improve our performance on social measures

Malaysia's performance on some key social measures does not bode well for us to achieve the social goals encapsulated in Vision 2020, such as our aim to become a moral and ethical society, and an economically just one. Examples of such areas include:

¹¹ The GCI measures such business enablers as institutional frameworks, infrastructure, market efficiency, business sophistication and innovativeness, among others.

- **Crime:** Public safety has become worse in recent years. Index crimes, such as property theft (e.g., snatch thefts, vehicle thefts) and violent crimes (e.g., robberies) have increased.
- **Corruption:** The perception of corrupt practices has risen in recent years, evidenced by Malaysia's declining ranking in Transparency International's Corruption Perception Index. In 2009, Malaysia's ranked dropped 9 places from 47 to 56.
- **Education:** While adult literacy may have improved, there are indications that we may have fallen behind on wider student outcomes. The 2007 Trends in International Mathematics and Science Study (TIMSS) saw 20% of our students failing to meet the minimum benchmark. We also lagged behind countries such as Hong Kong, South Korea and Singapore.
- **Distribution of income:** There are further opportunities to ensure the fruits of development are enjoyed equitably across society. This includes eradicating hardcore poverty¹² – there are still more than 44,000 hardcore poor households in the country, according to the Government's e-Kasih system. It also means addressing income gaps between urban and rural residents and between high and low income groups. An indicator of income distribution, Malaysia's Gini coefficient was 0.441 in 2007, where 0 is perfect equality of distribution and 1 is perfectly unequal distribution. When set against the UNDP Gini Index rankings, Malaysia's income is the second most unequally distributed in Asia, below that of China.

2.3.3 We are in a challenging fiscal position and need to reduce government spending, while still improving outcomes

We are in a fiscally challenging position. The rakyat's expectations for high-quality delivery of public services, stimulus of the recessionary economy and quick resolution of important concerns such as crime and education will continue to rise. These sentiments are consistent with global trends of rising expectations for government performance improvement, in terms of:

- Enhanced outcomes, whether in health, education or crime
- Enhanced customer service, including greater choice and more tailored services
- Enhanced government efficiency, and thus lower taxes

Malaysia's ability to finance improvements in its performance is limited, given that our fiscal position has been worsening since 1997. In 2009, we had our largest budget deficit (or excess of government expenditure over income) in more than 20 years – at 7.4% of GDP. In fact, our budget deficit has been deepening consistently since 1997. This has in turn contributed to historically high levels of government domestic and external debt (approximately RM 522 billion in 2008). While budget deficits are sometimes necessary, for instance to stimulate economies in recession, they are not sustainable. If not addressed, they will affect our future generation's ability to grow and finance required investments.

12 Chapter 9 discusses our measures on poverty and quantifies the terms of poverty and hardcore poverty

We face a dilemma. There is an urgent need to reduce spending (thus the operating expenditure allocated in the 2010 Budget was 14% lower than the preceding year) and yet deliver big economic and social outcomes fast. Consequently, we will have to:

- Prioritise allocation of funds to the most important areas
- Do more with less, i.e., enhance productivity and efficiency through new ways of delivery
- Roll back subsidies and any other distortions in the economy, albeit gradually

While the barriers are considerable, they can be overcome through the dedication of, and collaboration between, the Government and the rakyat. In the rest of this roadmap, we lay out our commitment – via the Government Transformation Programme – to overcome the challenges and realize the goals of Vision 2020 for the benefit of the rakyat of Malaysia.



