NEM and need for paradigm shift

AZAK School of Government, Unirazak lecturer Sharipah Ab Raman shares her thoughts on ‘It is necessary that the New Economic Model (NEM) provides a paradigm shift on how to re-energise the market’.

The private sector plays its role as the engine of growth and the policy maker becomes more of the facilitator, helping and guiding the private sector in its investment needs.

The government needs to be affirmative in their action programme so as to be more market friendly and transparent. This in return will help to stimulate business and private investment.

Malaysia’s economy has experienced a tremendous transfer in its economic structure and labour force, from humble beginnings as an agricultural economy base to manufacturing and finance. To achieve a higher income economy, the emphasis is on higher productivity, bringing about a fundamental shift from labour-intensive to capital-intensive and eventually moving towards knowledge-based industries and enterprises. A study by Rusmawati Said and Asmaddy Haris found that technological change is the dominant factor that explained the changes in relative demand for labour compared to trade.

It is found that the changes in the occupation distribution in Malaysia are not consistent with the path towards the attainment of a high-income nation.

The reason is that this type of employment structure would lead to low demand for knowledge workers, which is already a well-known issue.

Low demand and low pay for knowledge workers led to their migration to other countries.

This is consistent with the statement by Human Resource Minister Datuk Dr S Subramaniam who said: “Only 28% of the workforce is in the higher-skilled category. This is not in line with the high-income economy that Malaysia aspires to achieve.”

For policymakers, the pace and progression of reforms and transformation are critical as they influence decision-making. One particular consideration is the adjustment cost, where product and prices adjust immediately and resources can be reallocated without cost, which means removal of simultaneous distortions. In the real world however, resources cannot be reallocated instantaneously without incurring cost. The attainment of this goal also requires that private expectations of future policy do not deviate from the announcements from public authority. The more credible the authority, the more efficient the reallocation of resources.

Since a decade ago Malaysia has seen an influx of low skill labour immigrants.

Consequently it caused depressed wages in the country, concealing productivity improvements and confining Malaysia to low value-added manufacturing. The government should consider hiring qualified and professional personnel. The initial cost involved could be very high in the short run but the country would reap the benefits in the long run. The policy of preserving competitiveness should be opted.

In the Malaysian context, the social cost of employing immigrant labour far exceeds the private cost to employers. The government should ensure proper enforcement, and the employer should understand that hiring cheap immigrant labour is not only costly to them but to the nation as it will affect the attainment of the NEM.

It has also been indicated that management is the major dominant factor of production. Labour and land (the traditional factors of production) play secondary roles and money has become transnational and is no longer the most important factor of production.

This requires efficient, effective and ethical public administration and managers. The policy maker and public should be aware that Malaysia has an abundance of resources. Many university graduates remain unemployed. There are also more funds, left uninvested. The fact is that achievement and implementation of the NEM, the eight Strategic Reforms Initiatives, Economic Transformation Programme and its subsequent contents of Entry Point Projects requires the understanding and proper use of this knowledge in formulating effective public policy.

What matters now perhaps are a more integrated institutional effort as well as an increased integrity in servicing labour force. With all these factors taken into consideration and commitment to implement them by the policy makers, we will see Malaysia moving along the path to achieve the vision of becoming a high-income nation.