“National Unity and National Development: 1Malaysia Supply Chain Approach”

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by

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I am very honoured to be invited to give the Third Tun Abdul Razak Lecture at the Universiti Tun Abdul Razak. This lecture series was designed to honour our Second Prime Minister, aptly named the Father of Malaysian Development. That was the title of the Inaugural Lecture by YAB Tun Ahmad Sarji Abdul Hamid, our Pro-Chancellor, who had a distinguished career as a civil servant and also the privilege to work for the late Tun Abdul Razak. YAB Tun Ahmad Sarji, who was hand-picked by Tun Razak at the age of 35 as the founding Director-General of the Farmers’ Organisation Authority (FOA), had given a brilliant assessment of the brilliant career of a great son of Malaysia, who recognized talent in the young, gave them opportunities and built great institutions that serve the country well today. In my humble opinion, the Inaugural Lecture should be made required reading of all aspiring civil servants and graduates of UniRazak.

The Second Lecture was given by YBhg Tan Sri Datuk Arshad Ayub, who also had a distinguished career serving under Tun Razak, who also was the founder Director of Institut Teknologi MARA (ITM), today Universiti Teknologi Mara (UiTM), and was also a while Deputy Governor of Bank Negara Malaysia. Today, he is Chancellor of the Universiti Malaya, where I am a humble adjunct Professor. His Second Tun Abdul Razak Lecture was on Nation Building Through Education, a tour de force on the vision of Tun Razak in recognizing that education was the pathway to success, by a practitioner and institution-builder. I salute both Tun Abdul Razak Lecturers as role models for all Malaysians and for giving us their unique perspectives of the achievements of Tun Razak the man, the leader and the nation-builder.

I feel particularly humbled by my task today, because I would be the first Tun Abdul Razak Lecturer not to have served under the man himself, because I joined Bank Negara Malaysia only in 1976, the year of the passing of our Second Prime Minister. Perhaps, I have the privilege of serving under his son, the sixth Prime Minister.

The topic I have chosen today is related to the legacy of Tun Abdul Razak, who was motivated by the conviction that the future of his country would depend on the unity of all its people of various races. To quote “Malaysia adalah negara untuk semua rakyat yang taat setia dengan tidak kira keturunan atau bangsa dan agama. Malaysia tidak dipunyai oleh satu golongan – Malaysia adalah hak semua rakyat yang taat setia yang tidak berbelah bagi kepadanya.”

To quote him again in the launching of the New Economic Policy: “(The NEP) incorporates the two pronged objective of eradicating poverty, irrespective of race and restructuring Malaysia society to reduce and eventually eliminate the identification of race with economic functions... (The Government) will spare no efforts to promote national unity and develop a just and progressive Malaysian society in a rapidly expanding economy so that no one will experience any loss or feel any sense of deprivation of his rights, privileges, income, job and opportunity. ..To achieve our overall objective of national unity, Malaysia needs more than merely a high rate of economic growth. While devoting our efforts to the task of achieving rapid economic development, we need to ensure at the same time that there is social justice, equitable sharing of income growth and increasing opportunities.”

Looking back on those years, Tun Razak has said that governing Malaysia post-Independence was perhaps more difficult because: “Not only did we have to learn a methods of governing a Federation, we also had to learn the technique and skill of handling a mixed community and apply democracy with an electorate comprising Malays, Chinese, Indians and others

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and then blend this mixture into a mature nation, Malaysian in outlook, Malaysian in aim and attitude and backstopped by a form of Federation so that we would forge forward in our democratic destiny.”

The topic that I have chosen today, National Unity and National Development, comes from the underlying themes of the New Economic Model (NEM), which recognizes that national unity remains the continuing bedrock of national development plans since our Independence. As many of you know, the New Economic Model was first launched in March 2009 as an overall framework for transforming Malaysia from a middle income to an advanced nation by 2020. It was developed by the National Economic Advisory Council, which I am honoured to be part of, although the views expressed here today represent my own perspectives and not necessarily those of the Council or my colleagues. The Concluding Part of the NEM was published on 3 December 2010, presenting in greater detail the policy measures embedded in the 8 Strategic Reform Initiatives (SRIs) for the Government’s consideration.

As many of you know, the NEM forms part of the four major pillars that will drive the achievement of Vision 2020. The first is 1Malaysia – People First, Performance Now, which recognizes that the crucial role of Preservation and Enhancement of Unity in Diversity. The Second is the Government Transformation Programme (GTP) on the effective delivery of government services. The third is Economic Transformation Programme (ETP) of which there are two parts – the NEM SRIs and the National Key Economic Areas (NKEAs). Finally, Implementation of the Government’s development plans would be rolled out through the 10th and 11th Malaysia Plans and annual Budgets.

As the Concluding Part has elaborated on the SRIs, I need not repeat them except to remind what they are:-

1. Re-energizing the private sector
2. Developing a quality workforce and reducing dependency on foreign labour
3. Creating a competitive domestic economy
4. Strengthening the public sector
5. Transparent and market friendly affirmative action
6. Building the knowledge base infrastructure
7. Enhancing the sources of growth
8. Ensuring sustainability of growth.

The policy measures for re-invigorating the Private Sector include:-

1. Eliminating rent-seeking behaviour
2. Rationalizing Government’s Participation in Business
3. Adopting International Standards and Best Practices
4. Promoting Competition through Liberalization and De-regulation
5. Introducing Innovation in Financing
6. Enhancing Business Connectivity
7. Preserving the Environment

Although some people may feel that these are general principles that are laudable, the general expectation is that the proof of the pudding is in the eating. Exactly. The 1Malaysia Principle is that development is people and performance based. The SRIs express the pre-conditions for advancement into the Developed Country status. Becoming an Advanced Country requires that we adopt international standards and best practices. We cannot hope to compete in the Olympics without achieving Olympic standards. We have to aim high. By my own standards, the NEM has succeeded in sparking off a healthy debate on the right ways forward.

Allow me therefore to share some personal perspectives on the three goals of the NEM, namely, High Income of US$15,000 to $20,000 per capita by 2020; Inclusiveness that enables all communities to fully benefit from the wealth of the country; and Sustainability, that meets present needs without compromising the needs of future generations. After thinking long and hard about development, particularly after working abroad for more than 17 years, including experience in Africa, Latin America, Middle East and China, I thought that the concept of the 1Malaysia Supply Chain would be a useful and practical way for us to understand how we can pragmatically and realistically achieve the NEM, within the constraints and trade-offs that all economies face.

3 Available on www.neac.gov.my
It may be helpful for me to sum up the key propositions of this Lecture. Development is both the means and an end to the goals of Prosperity, Happiness and Stability. Similarly, national unity is both the means and the end of national development. National Unity is not a natural outcome of development – we must work at it from all levels in order to achieve national development. As the NEM said, “Their (the Eight SRIs) successful implementation depends critically on political will and the determination of all Malaysians to work together and progress to an advanced nation status”.

To put the issue starkly: Through the NEP, we have been successful in creating a Bumiputra Academic Community – UniRazak is the living proof of this. We have also been successful in creating a Bumiputra Professional Community. But the creation of a successful Bumiputra Industrial and Commercial Community (BCIC) or perhaps more accurately Bumiputra Entrepreneurial Community, has not yet been attained. This is a laudable objective and rightly so, a national objective. But moving from a reasonably risk-adverse academic and professional status to taking high risk entrepreneurship where the attrition level is very high is a very different ball game. We know from historical and international experience that this is not easy, not at the firm level, let alone the national level. Indeed, within Asia, entrepreneurship has succeeded mostly at the family level, but has not been institutionalized strongly to compete with the best of the West, particularly in the corporate sphere, especially in the use of non-family global talent. If we are to compete on a global scale, we have to change the way we compete and also the way we cooperate together.

But we also know that economies that have moved out of the middle-income trap have done so with the help of both strong entrepreneurs and strong governance. Japan, Korea, Taiwan and Hong Kong are not resource rich, but have inculcated strong entrepreneurs that have created wealth from tapping global markets. Lessons from the Asian crisis and Dubai have demonstrated that high leverage do not help and in fact make the high debt entrepreneurs more vulnerable to debt shocks.

My thesis is very simple: the creation of a successful Bumiputra Entrepreneurial Community should be a national effort, whereby academia, business and civil service (ABC) must all work together to make this happen. This cannot be achieved without national unity. And national unity comes from both cooperation and competing together because our strength is indeed our diversity. In fact, if we do not consciously and continuously work at it, our diversity can be a weakness.

Where are we today?

The NEM reports I & II represented a frank and realistic assessment of Malaysia’s current situation, ‘where we are?’ within the context of ‘What is happening around us’ and ‘Which advantages do we have?’ to present the case for the urgent changes required. The NEM has presented a clear vision of ‘Where do we want to be?’ and highlights the tough decisions and bold measures in charting the path to ‘How do we get there?’.

The first step in assessing where we are is that Malaysia has had very good leadership in opening up the country to foreign investment and adopting diversified export-oriented growth. Tun Razak left a rich legacy of focus on education, infrastructure and institution-building that has served the nation well. We have substantively reduced poverty and achieved middle-income status. But we are today facing a ‘Middle-Income Trap’ that is not easy to break out of.

What is happening around us?

The favourable global environment has changed dramatically since the Asian Crisis and then the Global Financial Crisis, which has come on top of the Global Warming Crisis. We are currently witnessing the on-going contagion that has swept from Greece to Ireland and possibly the other high debt Euro-zone countries. The US is struggling with growing deficits and rising unemployment. As Global Warming increases, we see the negative effects of natural disasters on food production, inflation and ultimately possible territorial conflicts. Even as advanced countries slow, the emerging markets will grow faster. But emerging markets are facing a different set of problems of overheating asset markets, infrastructure bottlenecks, social ills from rapid urbanization, demographic aging, creaking social safety-nets and major structural changes from a transformation from export-orientation towards domestic expenditure. The rise of population giants of China, India, Russia, Indonesia, Brazil and others create huge opportunities, but they also present competition to Malaysia.

The Middle-Income Trap implies that we need to deal with the two main recurring themes voiced out by feedback groups, which are 1) the lack of available talent and skills and 2) highly bureaucratic administration and overly cumbersome red tape.

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6 NEM Concluding Part, page 5.
**Why do we need to Change?**

The middle-income trap implies that to get out we need to do different things and do them differently. I highly recommend everyone to read Table 12 of NEM Part I, which explains what different approaches are being recommended. We need to focus on productivity-led growth, private led-growth, growth through clusters, encouraging technologically capable firms and industries that have greater innovation and connectivity, we need to shift from G-3 markets to Asia and Middle East Orientation, and finally, we need to retain and attract skilled professionals and talents from all walks of life.

The hard reality is that whilst Malaysia has benefited hugely from globalization and should continue to open up, globalization has also increased the number of competitors, in quantity as well as quality. Malaysia has well endowed natural resources and through its strong investment in education, a strong professional class. But as global incomes rise, Malaysia is caught in between huge global demand for its professionals who are attracted away by higher pay, as well as competition from low-wage economies like Vietnam and Indonesia who will become the next low-wage, high export-oriented economies in direct competition with Malaysia, including in areas like manufacturing as well as palm oil, rubber and other commodities.

The diffusion of technology through FDI means that competitors like Vietnam, Indonesia and others would not only catch up quickly in terms of productivity, but because of their larger domestic markets, rapidly gain economies of scale.

As the NEM Concluding Part said, Malaysia’s economy is too small to compete directly with the larger global giants. We have to play the game very differently. Malaysia must exploit her comparative advantages within the global production network in order to raise the income and enhance the quality of life. We must nimbly seek our innovation-based comparatively advantages in order to succeed. Finland was a small forest-based economy, and yet it succeeded through innovation-based telecommunications (Nokia) and high value design services.

In other words, raising incomes through higher productivity, reducing inequality through greater inclusivity and protecting our environmental heritage are no longer wish-lists, but national imperatives if we are to meet the competition head on. Since I also work and travel extensively in the Asian region, from China to Qatar, let me say that if we do not raise our game, the risks of marginalization are very real. We have a window of opportunity, and we must grab that opportunity.

**What advantages do we have?**

Malaysia’s true advantages are her geographical location, her biological and cultural diversity, superior infrastructure and interconnectivity to the growth poles of the 21st century. There is a common thread running through the successes of Japan, Korea, Taiwan, China and India. They form the core of the Asian Global Supply Chain. Indeed, the surplus countries of the world are exactly Asia and the Middle East Oil producers, who account for one quarter of global GDP and US$7.9 trillion of net foreign assets. Essentially, they provide the durable goods and IT services, as well as energy, for the Western advanced markets. These are also the growth giants that will spend trillions in the years to come on improving their infrastructure and securing natural resources.

Malaysia is geographically and culturally connected to the Islamic countries, India and China, each of which account for roughly 1.3 billion of population. Malaysian electronic industry forms a key component of the Asian electronic and electrical engineering supply chain. Our palm oil industry feeds the world. We have natural rain forests, coral reefs and water resources relative to population with biodiversity that is the envy of the larger population giants that are short of water and greenery. Malaysia does not compete directly in their areas of strength. We need to think how to grow rich just tapping their future growth in demand for tourism, services and niche markets.

Our key constraint is how to work together to improve our domestic supply chains to integrate and connect with these vibrant and growing supply chains.

**1Malaysia Supply Chain is a natural integrator**

Let me show why I find it useful to think in terms of the 1Malaysia Supply Chain.

The supply chain is both a process and a structure that integrate different inputs seamlessly to produce an output that meets a market demand. Henry Ford invented the assembly line, but the Global Supply Chain was perfected in Asia, first by the Japanese, but improved on by the Chinese and Indians, the latter in IT area. The Japanese companies operated in clusters and they forced just-in-time production and quality standards through influencing their suppliers and component producers. The Chinese improved supply chain because they realized that seamless government can actually raise the

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5 NEM Part 1, page 101.
supply chain productivity, since government processes and infrastructure all form part of the supply chain to make the input and output flow smoothly. Every member of the supply chain knows that if the supply chain succeeds, they prosper and if it fails, they fail.

The strategic direction under the 1Malaysia Supply Chain is to Focus, Simplify and Integrate. What is needed is for all Malaysians to work together to forge the 1Malaysia Supply Chain, so that it can compete globally and generate wealth and income to benefit all Malaysians. The 1Malaysia Supply Chain contributes to overall Bumiputra development through growing the cake. The Government has a critical role as facilitator and enabler in creating an efficient integrated 1Malaysia Supply Chain.

To put it very simply, a factory or farm cannot produce if there are no roads, ports or telecommunications to enable it to import raw materials and components in time. It cannot compete in terms of speed and costs if the customs processes are slow and taxes are high. If the supply chain does not succeed, there are no jobs. No jobs, no taxes, no higher pay for the civil service. Hence, globally, the winning supply chain becomes an even more successful supply chain, marginalizing others who cannot compete faster and better to the market place.

What the 1Malaysia Supply Chain concept implies are two things. First, we must all work together to improve and integrate our supply chains. Second, the more we have scale, the higher the productivity, the more we succeed. The less we have scale, the more likely the supply chain will be marginalized.

The vicious circle of marginal supply chains is exactly the problem faced by our SMEs. If they are not integrated into the larger global supply chain and if they are dependent on subsidies which cannot last forever because of the fiscal constraint, the less the chances of the SMEs succeeding in the long-run.

**Inclusivity versus Inequality**

Let me now move on why Inclusivity plays such a large role in a sustainable and stable society. As indicated above, a successful supply chain depends on Seamless Government and Seamless connectivity, in transport and telecommunications. If a farmer cannot get his produce to the market, everyone suffers – from the farmer, the consumer and the economy as a whole. In India, it was discovered that the widespread availability of telephones improved farm income, because farmers could check on prices of their produce. The rural population in Sabah and Sarawak remain disadvantaged because of inferior infrastructure and poor access to social services.

There is now greater awareness that the market cannot effectively solve inequality issues, even in the advanced markets. Professors Wilkinson and Pickett⁶, who are health economists, have made an important contribution in showing how many social ills, such as obesity, illnesses, educational performance, crime and even life expectancy, are related to social inequalities. They argue that unequal material success could lead to social failure. Greater equality makes societies stronger and true equality can come from efforts by both government and civil society. Not only do unequal societies have more social problems (as there are more poor people), more importantly – most of the effect of inequality is the result of worse outcomes across the vast majority of the population.

Although the Wilkinson-Pickett studies are drawn from data from advanced economies, they have huge relevance for middle-income markets like Malaysia. There are two different paths to greater equality – one using taxes and benefits (big government) to redistribute income from the rich to the poor and the other achieving narrower differences in gross market incomes before any distribution (using market forces and civil society more).

This is where national unity comes in. If government becomes too big, it crowds out the private sector and civil society. Inclusivity means that everyone has to work together to achieve better outcomes for society as a whole. The Government is in the middle of the supply chain, which cannot move without an efficient or seamless bureaucracy.

In this regard, Tun Razak’s understanding of the seven deadly sins of bureaucracy with respect to rural development (which applies universally to all bureaucracies, private or public) is so spot on that I have to quote them in whole⁶⁻:⁻

1. “Inter-departmental jealousy in the course of day-to-day execution of governmental functions and conflicting departmental policies on the ground in the rural areas.
2. Lack of coordination between departments in what they are trying to do for the rural areas.
3. Lack of day-to-day cooperation between government officers on the ground, mostly due to a lack of understanding of each other’s tasks

⁷ Source: Inaugural Lecture, Tun Ahmad Sarji, 11 March 2009,
4. Every department thinking it is the most important, in other words, too many priorities all pulling at cross purposes and leading nowhere.
5. Lack of proper planning that fit into a master plan for the rural areas.
6. Lack of master plan at all levels for the purpose of achieving the maximum development in the rural areas
7. Lack of sufficient directive control at the top to ensure that government in the rural areas functions as an efficient machine manned by a purposeful, single-minded team, and driven toward one goal only, that of rural development.”

In other words, without unity of purpose and operations at the bureaucratic or institutional level, and especially at the inter-institutional level between government and the private sector, the supply chain cannot function efficiently and therefore cannot compete with other supply chains. In a global context, this leads ultimately to supply chain marginalization.

In the words of YBhg Tan Sri Arshad Ayub, “the secret of strengthening linkages with both the government and industry lies in the fact that it is a win-win situation. We train the students with the industry and job scopes in mind. We introduce programmes and new courses with this in view. Everything else is secondary. And if there are no teachers to teach it we have the freedom to “borrow” from elsewhere including foreign universities and colleges. Education is not a special copyright of any one individual institution. And it knows no boundaries”.8

In other words, we have to think in linkages, networks and supply chains. This forces us to work together for the whole purposes of educating our people so that we can have higher incomes, greater inclusivity, better environmental sustainability and ultimately happiness. As Wilkinson-Pickett recognized, greater equality means greater friendship, which is “about reciprocity, mutuality, sharing social obligations, cooperation and recognition of each other’s needs”.

**Environmental Sustainability**

Allow me to say a few words about environmental sustainability, because I personally wish that I had more time to work on this area of great importance to not only Malaysia, but also global warming. Malaysia has one of the richest and perhaps oldest natural tropical forests in the world, as well as superb coral reefs and marine life. This is a biodiversity heritage that we should jealously preserve not only for future generations but also for all mankind. Growing in Sabah and having witnessed the loss of large tracts of tropical forests, I sometimes wonder whether the price of development was worth it. Yes, we have palm oil to replace timber, but Sabah’s tourism income comes today because of the attraction of what we managed to preserve. And what we have is increasingly becoming more and more rare and therefore valuable to the rest of the world. We should remember that during the Ming dynasty, tropical hardwood used for the best furniture was sold by the “catty”, rather than by tonnes. In my opinion, we have not yet begun to tap the knowledge-based income from our natural heritage. Part of this arises from the lack of research and development and public awareness of the importance of our natural heritage.

Indeed, I am convinced that our water resources will be more valuable to us in the next 50 years than perhaps our other products. In future, when global warming may put water stress under greater consideration, we may need to look at how water-efficient we are. This means that we would have to re-look at the way we tax our energy and natural resources. All I can say at this stage is that if our universities take the lead in doing research in the area of how to improve our Green economy, Malaysia could be a leading light in being the Greenest Tropical economy. Currently, the greenest economies tend to be in the temperate or cold weather zones, because of their reliance on energy to heat themselves.

**Deeper meaning of NEM**

To conclude, being an advanced economy means a complete change in mindset and social behaviour, including different way of doing things. I have not been able in this short Lecture to describe and explain how much work and thought has gone into the NEM, because the NEAC benefited from not only the vast experience and international perspectives of its members, but also gleamed tremendous input, insight and feedback from the numerous consultations, both formally and informally from many parties and experts.

If I have not explained the NEM well or have only selected parts of it, this is because of my own limitations.

I am old enough to appreciate that it is not easy to get people to think differently, let alone to do things differently. We all have our own comfort zones.

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8 Second TARL, page 12.  
9 Wilkinson-Pickett, page 197.
But what I do know is that if we are to become an advanced nation, our sense of community must change, to have greater shared values and mutual respect, rather than to think as “we-they”.

For thousands of years, man has struggled with basic needs. In less than two generations, we have moved from colonialism to independence and to have almost eradicated absolute poverty. This generation is at the brink of moving from middle income to advanced country status. If we are to improve the real quality of life, we have to pay greater attention to the social environment and the quality of our social relations, both within the country and with the rest of world. In the next generation, most of Asia, including Malaysia, will have more people living in urban areas than rural areas. The quality of social relations will be built very differently, using wireless telecommunications such as Tweeter, Facebook and other media which are being invented almost daily.

As the English social philosopher LT Hobhouse believed, “Liberty depended, in all its domains, on equality – equality before the law, equality of opportunity, equality of parties to a contract”. Equality does not mean sameness. In this diverse world, we are equal because we are different and through our diversity, we create excellence and opportunity.

I conclude with another Tun Razak quotation: “...This is perhaps the most important quality required to be practiced by our present day citizens – the quality of tolerance, the ability for each and every one of us, irrespective of our racial origin to live in harmony each with one another because without harmony, there will be no unity, and without unity there will be no progress and without progress, there will be no prosperity! But our ultimate aim must be to create one people, one nation, out of our people of various races. We intend to do this through democratic processes, upholding the principle of democracy in which we strongly believe. While we march forward towards this ultimate goal, we will continue with the policy of economic development, of giving a fair deal to our people, of making adjustments here and there so that every one of our citizens has a just and rightful place in our society”.

Thank you very much for your patience and understanding.

9 December, 2010,
Penang.