

Press Release

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3 November 2017

Joint Jeffrey Cheah Institute (JCI) - Malaysian Economic Association (MEA) Seminar: Revisiting the New Economic Model (NEM) – Lags and Prospects

The NEM laid out an ambitious reform agenda for Malaysia to graduate from middle income to high income status by 2020. With just two more years to achieve this vision, Malaysia now faces the added pressure of ensuring development that is sustainable and in line with the UN Sustainable Development Goals. The fourth JCI-MEA economic seminar in a four-part series discussed Malaysia's urgent imperative for a **"Reform Program for Dynamic Sustainable Development"**. It was held on Tuesday 31 October 2017 at Sunway University and featured Professor Jeffrey Sachs, Tan Sri Datuk Dr. Kamal Salih, and Professor Woo Wing Thye.

"When it comes to harnessing technology, standing still can no longer be an option for Malaysia, for it risks being left behind", said Professor Jeffrey Sachs, Director of the United Nations Sustainable Development Solutions Network and Chairman of the Jeffrey Sachs Center on Sustainable Development at Sunway University. "Malaysia needs to rise up and be part of the massive data & information revolution taking place – one that leverages smart machines, robotics and electronic means of doing business. It is a world where China is gaining pre-eminence where it is likely to overtake the United States by the middle of the century." Machines will be doing what humans once did and sectors like manufacturing, agriculture, retail and education will be deeply affected.

Professor Sachs predicts that technology companies will dominate the economy, big oil and big coal players will be reduced to insignificance. "Malaysia needs to retool its economy from one that is heavily dependent on fossil fuel. Malaysia should devise a new development strategy to eventually become a leader in renewable energy". He believes that the government must be the champion of scientific truth over politics and must be ready to invest for the long run. "This is no longer a scientific debate, but as in most parts of the world, it is sheer politics that is keeping carbon-intensive and fossil fuel-based energy industries alive", he says.

Tan Sri Datuk Dr. Kamal Salih, Adjunct Professor of Development Studies at University of Malaya, reinforces Professor Sachs's comments by recalling his advice to the Malaysian government in 2012 to quadruple R&D spending from 1% of GDP to 4% of GDP. Tan Sri Kamal believes that had his advice been heeded, Malaysia would now be much further up the innovation and technological ladder. It is unfortunate that Malaysia's spending on R&D remains close to the 1% of GDP threshold today.

On the issue of inequality, Tan Sri Kamal emphasises that income disparity among Malaysians today is not due to inter-ethnic differences in income but to differences in

income within each ethnic group. “We are still obsessed about income differences between the races when this is no longer the case”, he says.

Tan Sri Kamal finds it regrettable that race -- inter-ethnic income disparity -- continues to be the basis for politics and policies when the focus should be on class. He believes that Malaysia’s vast divide between the top 1% and bottom 50% has deeper systemic roots. Tan Sri Kamal regards BR1M as having negligible redistributive impact compared to a minimum wage that supports a basic living standard.

Professor Woo Wing Thye, President of the Jeffrey Cheah Institute and Professor of Economics and University of California Davis, highlights two institutional flaws that undermines sustainable development in Malaysia: the over-centralization of fiscal power and administrative governance at the Federal level, and the over-use of race-based quotas in economic management.

Professor Woo says that the thirteen states should not have to depend almost entirely on the federal government for fiscal transfers to finance their expenditure. The Federal government should transfer the collection and use of many of the taxes to the states; allow states the right to borrow for development projects; and to yield more administrative functions to the state. The extreme centralization of revenue and governance in the 1960s and 1970s was justified because the pool of competent administrators was small in the early years of Malaysia, and because of the existential threats of the Emergency and the *Konfrontasi*. However, thanks to the tremendous success in making education accessible to the public, there is enough technical competence in each state to manage its affairs in a more timely manner and in more efficient ways in response to local circumstances. Decentralization will also help to dampen separatist sentiments in Sabah and Sarawak. Malaysia must embrace institutional reforms to restore economic dynamism and national cohesion.

This fourth seminar concludes a four part-series of economic seminars to address the theme, “**Revisiting the New Economic Model (NEM) – Lags and Prospects**”, that ran between 1 August and 31 October 2017. For more information, please visit: www.jci.edu.my