3 Things I Want to Share with You Today…

1. The Economic Situation & Federal Government Programmes
2. The Root Causes of the Economic Stagnation
3. Freeing Penang and Malaysia from the Middle-Income Trap through the Penang Paradigm
**We Cannot Blame the Global Financial Crisis for Present Economic Stagnation**

*COUNTRY’S INCOME AS % OF US INCOME (Income in GDP per capita in PPP$)*

<table>
<thead>
<tr>
<th></th>
<th>1963</th>
<th>1996</th>
<th>2007</th>
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</thead>
<tbody>
<tr>
<td>China</td>
<td>12.6%</td>
<td>55.7%</td>
<td>66.8%</td>
</tr>
<tr>
<td>Korea</td>
<td>10.7%</td>
<td>49.9%</td>
<td>61.4%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>13.6%</td>
<td>30.7%</td>
<td>31.9%</td>
</tr>
</tbody>
</table>

**Federal Government’s Reaction to the Economic Malaise**
What do the programs reveal?

<table>
<thead>
<tr>
<th>Great shortage of human talent</th>
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<tbody>
<tr>
<td>Highly unequal geographical distribution of development</td>
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<tr>
<td>Severe shortfall in domestic investment</td>
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<td>Drastic deterioration in performance of governance institution</td>
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### Root Causes of the Malaysian Economic Malaise

<table>
<thead>
<tr>
<th>Government Policy</th>
<th>Private Sector Adjustment</th>
<th>Outcome</th>
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</thead>
<tbody>
<tr>
<td>Abuse of socio-economic policies and ignoring ability as criteria to benefit cronies e.g. selection based on relationship not performance</td>
<td>Brain drain occurs in every ethnic group</td>
<td>Shortage of human talent</td>
</tr>
<tr>
<td>Tax on growth of firms, i.e. mandated sale of proportion of equities at discount to govt-selected individuals upon listing</td>
<td>Capital flight &amp; SMEs leave Malaysia to grow elsewhere or choose NOT to grow</td>
<td>Large shortfall in domestic investment</td>
</tr>
<tr>
<td>Over-centralisation at Federal level, suppressive of local initiatives</td>
<td>Inadequate infrastructure outside of KL-Putrajaya</td>
<td>Highly unequal geographical distribution of development</td>
</tr>
<tr>
<td>No transparency in Federal operations</td>
<td>Public unable to monitor performance</td>
<td>Deterioration in governance</td>
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</tbody>
</table>
Negative effects from brain drain, capital flight, insufficient hard infrastructure, and sub-standard soft infrastructure not clearly seen before 2000 because

**BEFORE**

NEGATIVE GROWTH ASPECTS WERE OUTWEIGHTED BY:
- MASSIVE INWARD FD;
- BIG INVESTMENTS BY GLCS;
- LARGE INFRASTRUCTURE PROJECTS FINANCED BY OIL AND GAS REVENUE.

**YEAR 2000**

- POST-1990 EXTERNAL TRENDS AND PRE-2000 EXTENDED PERIOD OF MISMANAGEMENT HAVE GREATLY REDUCED THE MAGNITUDES OF OFFSETTING FACTORS, RESULTING IN SIGNIFICANT SLOWDOWN IN GROWTH - MALAYSIA IN THE MIDDLE-INCOME TRAP.

**AFTER**


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**Over-Use of Emergency Room Procedures**

<table>
<thead>
<tr>
<th>Government Policy</th>
<th>Circumstances at that time</th>
<th>Situation Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affirmative action policies</td>
<td>To quickly reduce the socio-economic gap between ethnic groups</td>
<td>Large, well-educated Malay middle class created; but use of relationship rather than performance in govt and economic stagnation are causing Malay brain drain.</td>
</tr>
<tr>
<td>30% of shares be sold at discount to govt-selected individuals (&gt;IPO reqn, min 25% of share capital offered)</td>
<td>To quickly increase Malay ownership of capital</td>
<td>Required share lowered to 12.5%, but rest of world has 0% requirement.</td>
</tr>
<tr>
<td>Over-centralisation of power at Federal level</td>
<td>Existential crisis in 1957 (Emergency) and in 1963 (Konfrontasi)</td>
<td>Chin Peng and Soekarno have long disappeared</td>
</tr>
<tr>
<td>No transparency in Federal operations</td>
<td>Until 1980, population inadequately educated and would not understand explanations</td>
<td>Incompetent, unresponsive governance that is below aspirations of educated, confident public</td>
</tr>
</tbody>
</table>
Reform the policies that are making the Malaysian economy sick?

OR

Introduce a new set of policies to try to offset the ill-effects caused by existing policies

Reviving Economic Dynamism Needs New Growth Engines

Catalyst role by State that enables new growth engines to appear

- Growth of high-tech manufacturing & high-tech bio-agro sectors
- Emergence of high-value modern services, e.g.
  - Regional medical centre,
  - International port
- Transition of small-medium enterprises to world-class exporters

Each is Powered By Human Talent
Human Talent: key active ingredient in all new growth engines.

Catalyst role: State increases the supply of Human Talent

- Measures to upgrade skill of Penang labour force
- Measures to retain human talent
- Measures to attract human talent

- Eradicate poverty to fully mobilise brain power
- Allocations to schools
- Enhance Liveability & Sustainability
- Entrench social harmony and community spirit

Enhancing Liveability & Sustainability

- Make housing affordable
- Reduce Traffic Congestion
- Enhance Sustainability of Natural Environment
- Improve Quantity & Quality of Public Space
ACCELERATING SOCIAL DEVELOPMENT & INCLUSION

Open the *Buah Pinang* (Betel Nut), and you will find:
PUBLIC CONSULTATION

Help us with your comments:

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