

# Malaysia's Experience in Knowledge-based Development: Lessons Learnt and the Way Forward

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# Contents

- In what way has Malaysia addressed its development challenges?
- How did it approach the knowledge-based development challenge?
- What has it achieved?
- What lessons can we draw from this experience?
- How do we chart the way forward?




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# Major development challenges have been faced to transform country: economic, social, administrative, institutional and governance

- Poverty eradication, education, health
- National unity
- Social change and transformation
- Economic growth with equitable distribution
- Economic diversification
- Knowledge-based social and economic transformation
- Economic resilience and competitiveness





## Strategic national vision, structured development plans and institutional frameworks were formulated

- Five-year planning cycle: 1960 onwards
- New Economic Policy (1971-1990)
- National Development Policy (1991-2000)
- Vision 2020 (1991-2020)
- National Vision Policy (2001-2010)
- Tenth Malaysia Plan (2011-2015)
- New Economic Model, 2010
- Economic Transformation Programme, 2010

# Vision 2020 nine challenges on becoming a developed country according to our own mould

- The first of these is the challenges of establishing a united Malaysian nation with a sense of common and shared destiny. This must be a nation at peace with itself, territorially and ethnically integrated, living in harmony and full and fair partnership, made up of one 'Bangsa Malaysia' with political loyalty and dedication to the nation.
- The second is the challenge of creating a psychologically liberated, secure, and developed Malaysian Society with faith and confidence in itself, justifiably proud of what it is, of what it has accomplished, robust enough to face all manner of adversity. This Malaysian Society must be distinguished by the pursuit of excellence, fully aware of all its potentials, psychologically subservient to none, and respected by the peoples of other nations.
- The third challenge we have always faced is that of fostering and developing a mature democratic society, practising a form of mature consensual, community-oriented Malaysian democracy that can be a model for many developing countries.
- The fourth is the challenge of establishing a fully moral and ethical society, whose citizens are strong in religious and spiritual values and imbued with the highest of ethical standards.
- The fifth challenge that we have always faced is the challenge of establishing a matured, liberal and tolerant society in which Malaysians of all colours and creeds are free to practise and profess their customs, cultures and religious beliefs and yet feeling that they belong to one nation.
- The sixth is the challenge of establishing a scientific and progressive society, a society that is innovative and forward-looking, one that is not only a consumer of technology but also a contributor to the scientific and technological civilisation of the future.
- The seventh challenge is the challenge of establishing a fully caring society and a caring culture, a social system in which society will come before self, in which the welfare of the people will revolve not around the state or the individual but around a strong and resilient family system.
- The eighth is the challenge of ensuring an economically just society. This is a society in which there is a fair and equitable distribution of the wealth of the nation, in which there is full partnership in economic progress. Such a society cannot be in place so long as there is the identification of race with economic function, and the identification of economic backwardness with race.
- The ninth challenge is the challenge of establishing a prosperous society, with an economy that is fully competitive, dynamic, robust and resilient.

# Key features of national development planning

- Top-down strategic intervention driven by visionary leadership
- Investment in human capital
- Capacity building: human resource, institutional, systemic linkages
- Foreign direct investment: financial, knowledge and skills
- Series of qualitative jumps: agriculture to industrial to information/knowledge
- Willingness to experiment, explore and discover





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# Key strategic interventions to capitalise on knowledge-based development opportunities

- Industrial Incentives Act, 1969, and creation of Free Trade Zones
- Expansion of R&D and higher education
- Creation of national R&D and development institutes in emerging priority areas
- Privatisation of telecoms and other key infrastructure companies, followed by deregulation and liberalisation
- Formation of National Information Technology Council (NITC), 1994
- Multimedia Super Corridor, 1995
- National Information Technology Agenda, 1996
- New Economic Model, 2010

# Knowledge for Development:

## The World is undergoing a Sea Change

### ECONOMY

- Transformation of economies from industrial to knowledge based – economic value is a function of knowledge intensity
- Knowledge based economy is an economy of innovation

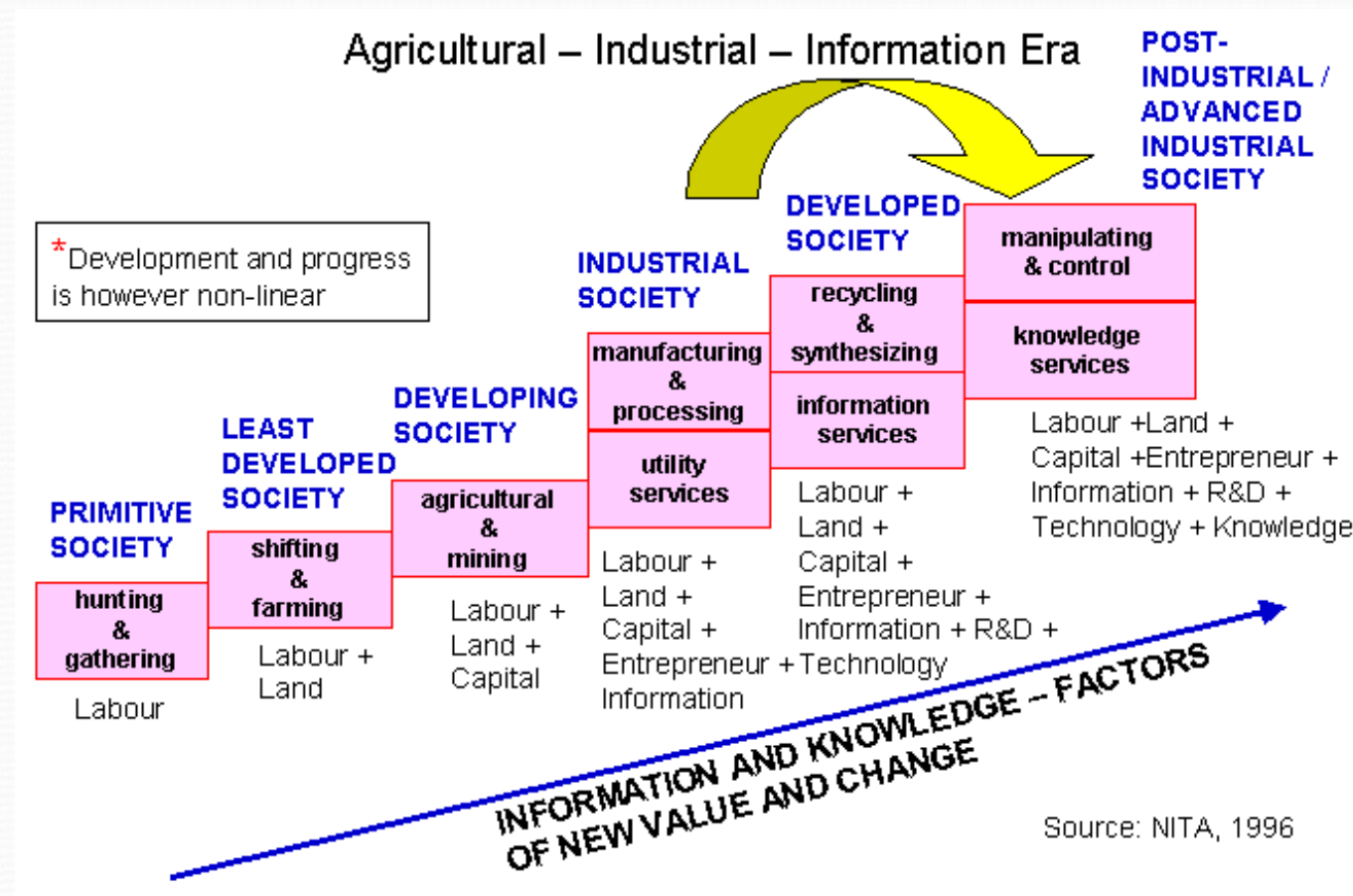
### GOVERNANCE

- Pervasive access to information flattens organizational hierarchies
- Ubiquitous global communication heightens citizen expectations leading towards demand for more democratization and active participation
- Global Internet governance system is changing the traditional economic, social and political mechanisms in place

### CULTURE

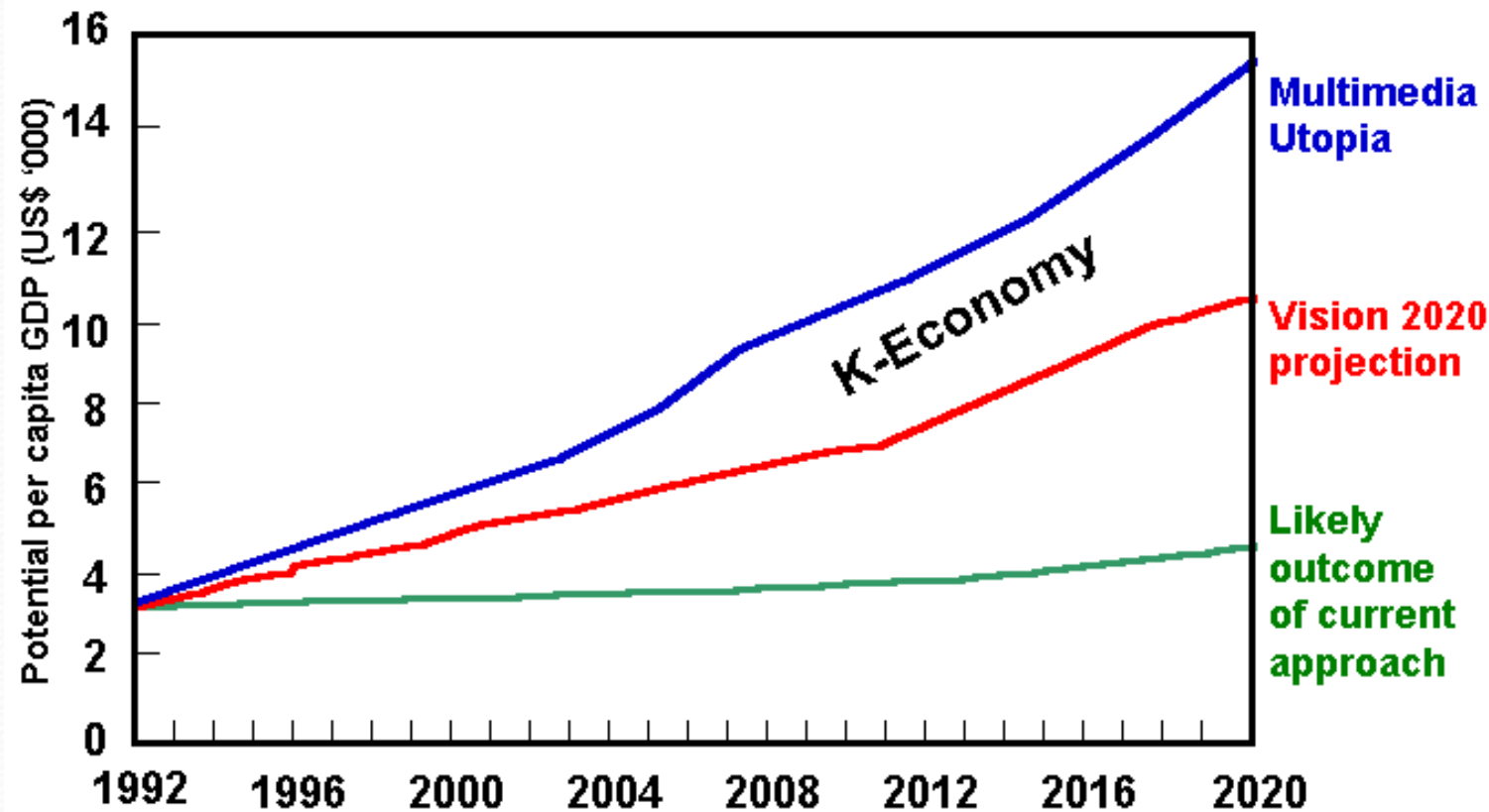
- Cultural identity and sovereignty being redefined through borderless communication of content which embed value systems

**Information & Communication Technology (ICT) envisioned as the means to leapfrog Malaysia from an industrial society to a post-industrial one, by-passing the 'developed society' phase of the industrial model**





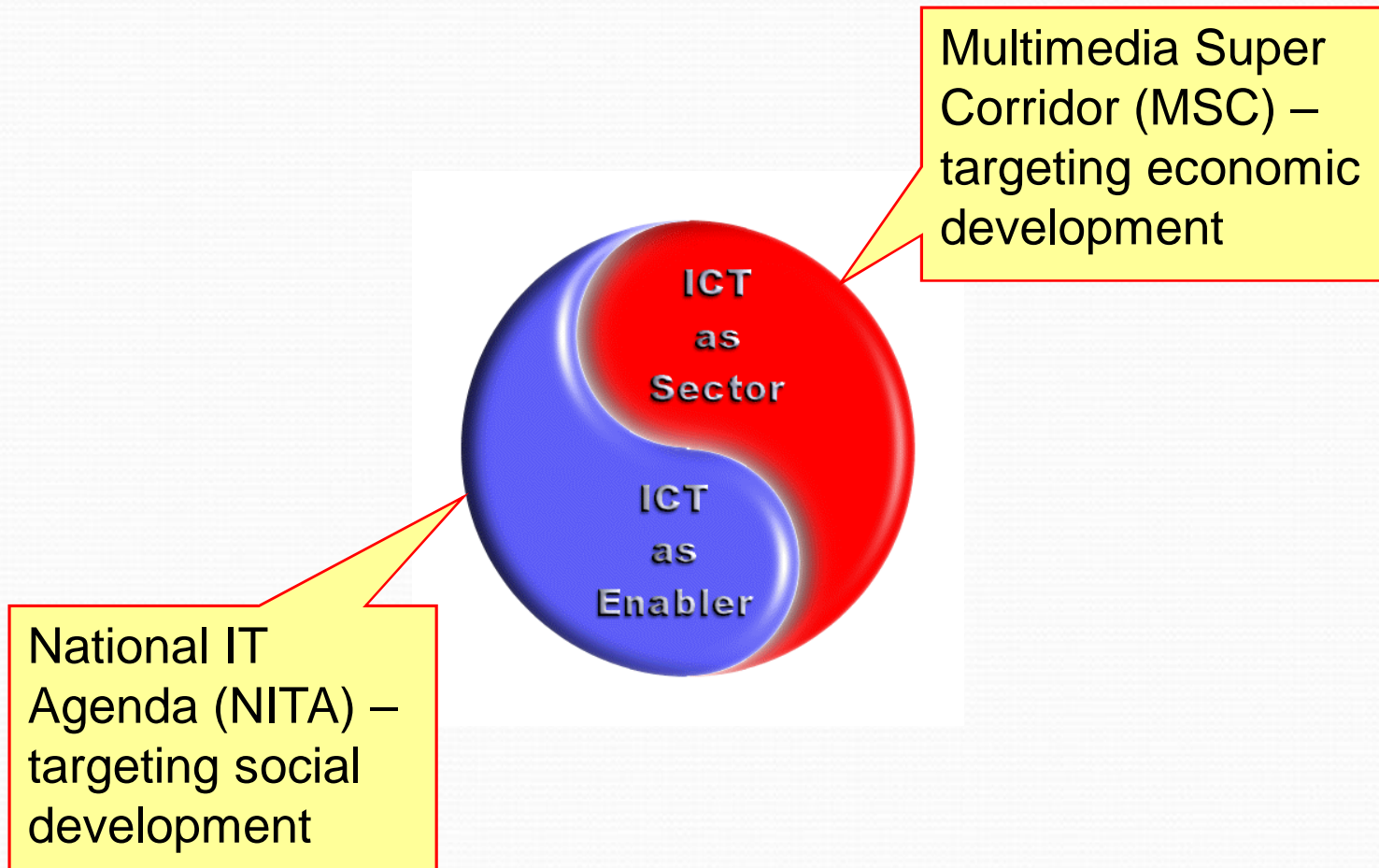
Export-oriented industrial growth then pursued would not take Malaysia to Vision 2020 economic targets



Source: McKinsey analysis (1994)

Information and Communication Technology (ICT) became the vehicle to make the quantum jump

The National IT Council (NITC), recognising the dual functions of ICT, conceived the National IT Agenda and the Multimedia Super Corridor as complementary initiatives

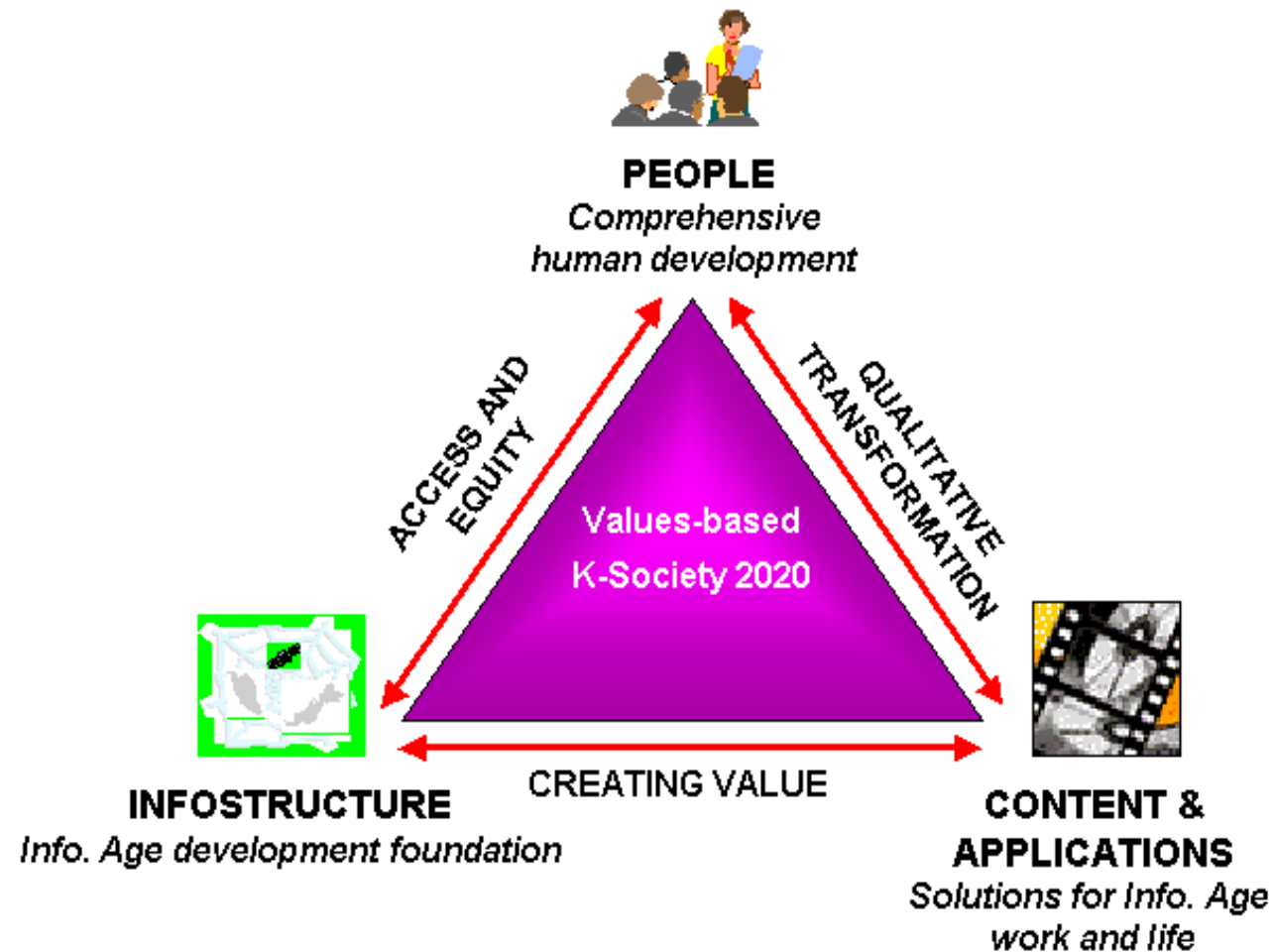


# Strategic Programme 1

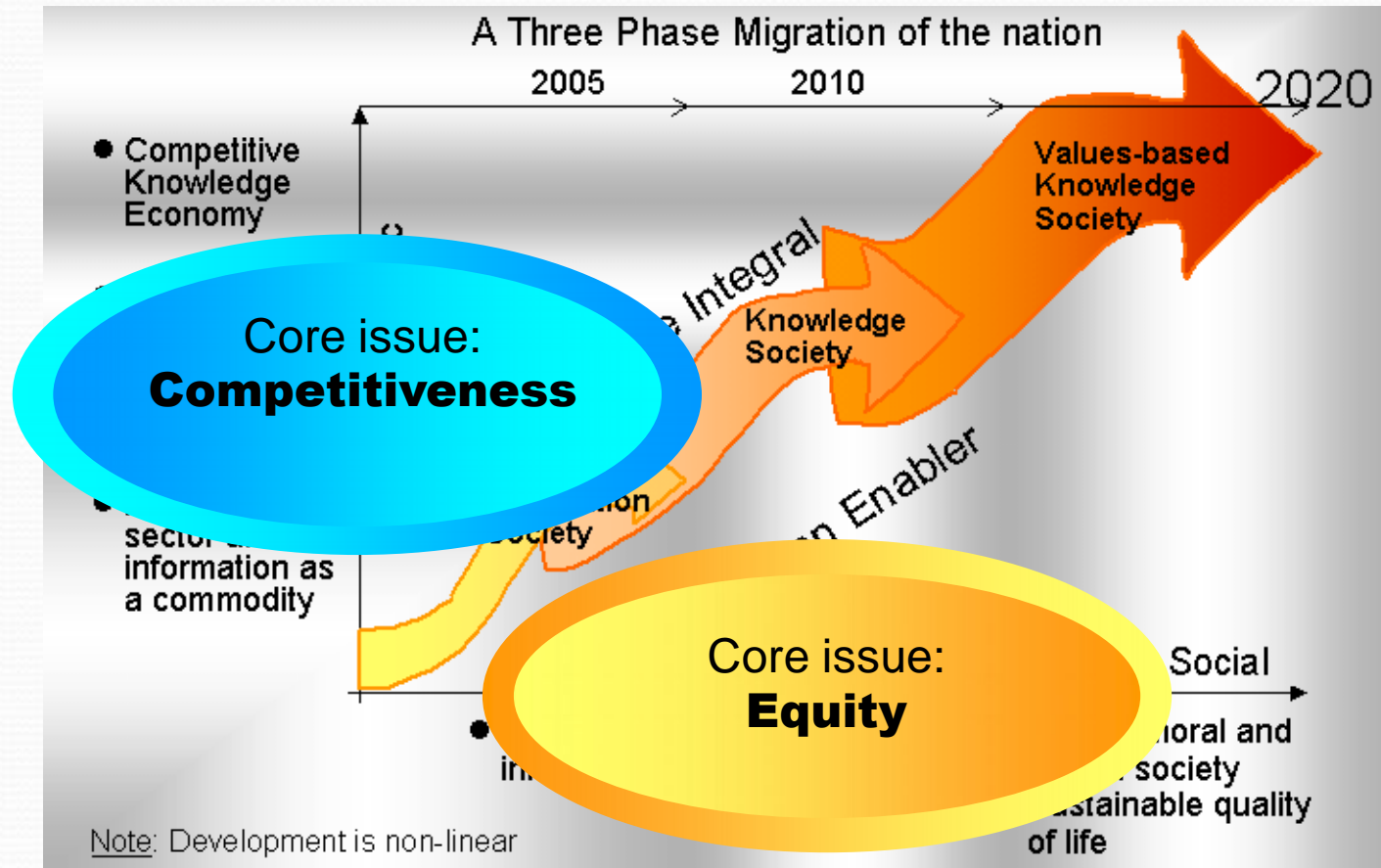
National IT Agenda  
*“from ripples to tidal waves”*



## National IT Agenda: A Framework for Continuing Growth with Equity



# The K-Malaysia Migration Strategy



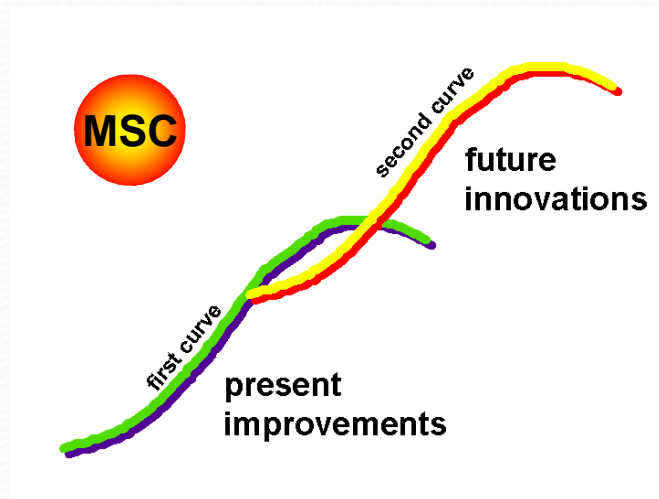
## Strategic Programme 2

# Multimedia Super Corridor

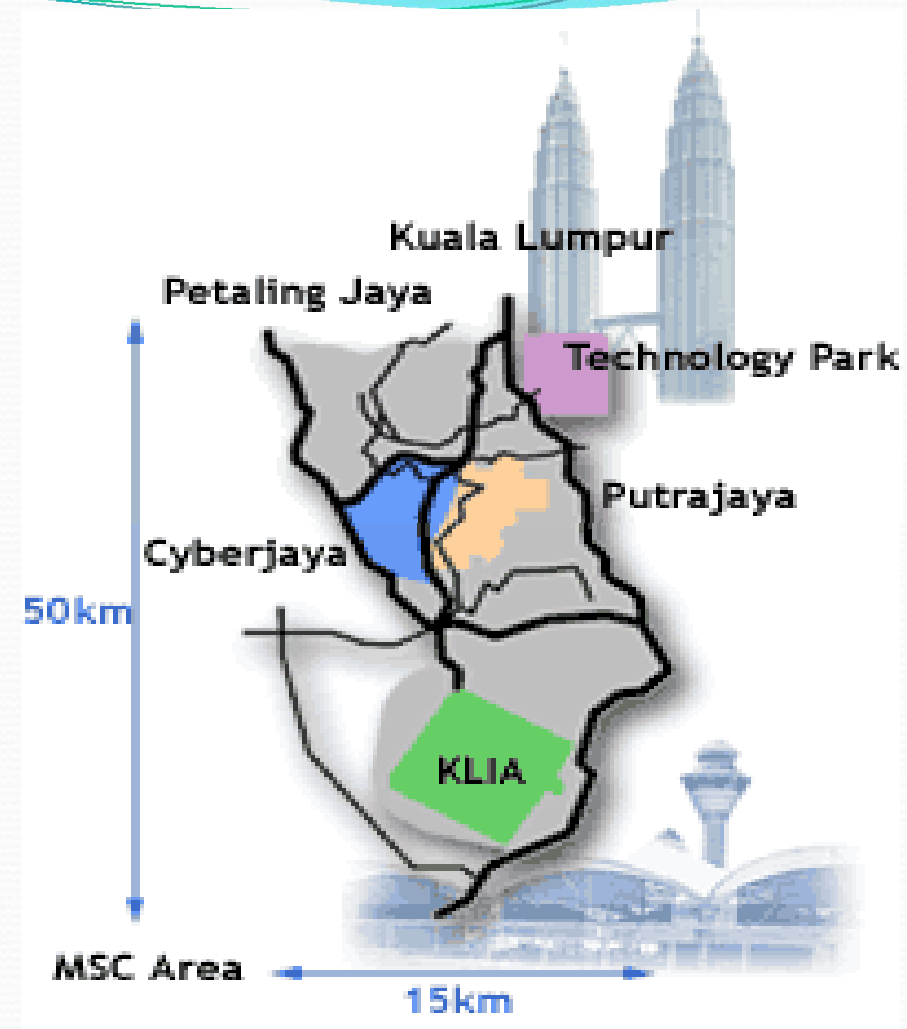




The MSC heralded ICT as a new sector of growth to develop knowledge-based industries



URL: <http://www.msc.com.my>



The MSC is an attempt to develop a dynamic industrial cluster for producing innovative ICT-based multimedia products and services to kick-start a content and applications industry

## The MSC Strategy: Leapfrogging Malaysia's development



# MSC key features to attract investment

- Ten-point Bill of Guarantees
- Seven Flagship Applications
- Cyberlaws and IP laws
- Cyber city: green-field site with comfortable living environment and advanced ICT infrastructure
- Strong government support



# MSC Bill of Guarantees

- Provide a world-class physical and information infrastructure
- Allow unrestricted employment of local and foreign knowledge workers
- Ensure freedom of ownership by exempting companies with MSC status from local ownership requirements
- Give the freedom to source capital globally for MSC infrastructure, and the right to borrow funds globally
- Provide competitive financial incentives, including no income tax for up to 10 years or an investment tax allowance, and no duties on import of multimedia equipment
- Become a regional leader in intellectual property protection and cyberlaws
- Ensure no Internet censorship
- Provide globally competitive telecommunications tariffs
- Tender key MSC infrastructure contracts to leading companies willing to use the MSC as their regional hub
- Provide an effective one-stop agency – Multimedia Development Corporation

# MSC Seven Flagship Applications

- e-Government
- Smart Schools
- Tele-health
- R&D clusters
- Multi-purpose card
- e-business
- Technopreneur development

And two special initiatives

- Creative multimedia cluster
- Outsourcing and shared services centre

# Cyberlaws and Intellectual Property Laws

- Communications and Multimedia Act 1998
- Malaysian Communications and Multimedia Commission Act 1998
- Digital Signature Act 1997
- Computer Crimes Act 1997
- Telecommunications Act 1997
- Optical Discs Act 2000
- Copyright Act 1987
- Trade Marks Act 1976
- Patents Act 1983
- Industrial Designs Act 1996
- Layout Designs of Integrated Circuits Act 2000
- Geographical Indicators Act 2000
- Trade Description Act 1972
- Intellectual Property Corporation of Malaysia Act 2002
- E-commerce Act 2006





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# Results achieved

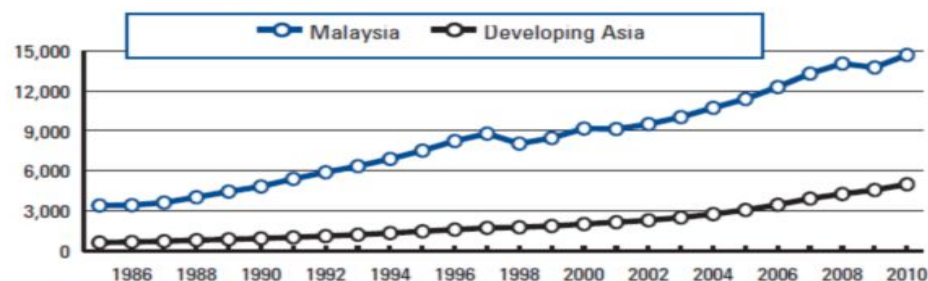
- Mass awareness of knowledge and ICT revolution – initiating process of acculturation and social change
- New institutional capacity for planning and implementation
- Talent and human and intellectual capital given top priority
- Innovation and value-adding processes and systems revisited
- MSC as global ICT and multimedia hub – work in progress with some early success
- Institutions to address biotech sector
- Economic transformation initiated

# Malaysia

## Key indicators, 2010

Population (millions).....	27.9
GDP (US\$ billions).....	238.0
GDP per capita (US\$).....	8,423
GDP (PPP) as share (%) of world total.....	0.56

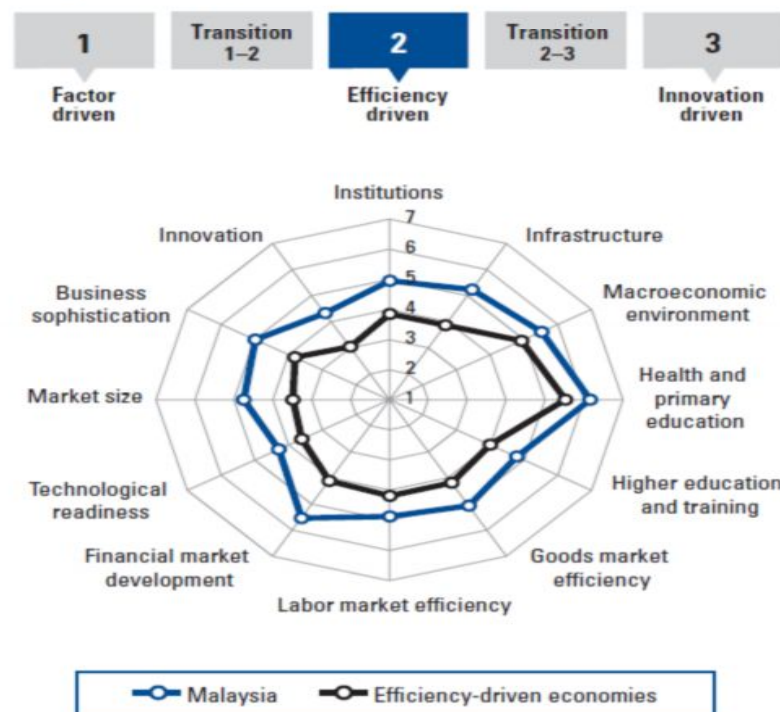
GDP (PPP) per capita (int'l \$), 1985–2010



## Global Competitiveness Index

	Rank (out of 142)	Score (1–7)
<b>GCI 2011–2012</b> .....	<b>21</b>	<b>5.1</b>
GCI 2010–2011 (out of 139).....	26	4.9
GCI 2009–2010 (out of 133).....	24	4.9
<b>Basic requirements (40.0%)</b> .....	<b>25</b>	<b>5.5</b>
Institutions.....	30	4.9
Infrastructure.....	26	5.2
Macroeconomic environment.....	29	5.5
Health and primary education.....	33	6.1
<b>Efficiency enhancers (50.0%)</b> .....	<b>20</b>	<b>4.9</b>
Higher education and training.....	38	4.8
Goods market efficiency.....	15	5.1
Labor market efficiency.....	20	4.9
Financial market development.....	3	5.5
Technological readiness.....	44	4.3
Market size .....	29	4.8
<b>Innovation and sophistication factors (10.0%)</b> .....	<b>22</b>	<b>4.7</b>
Business sophistication .....	20	5.0
Innovation.....	24	4.3

## Stage of development

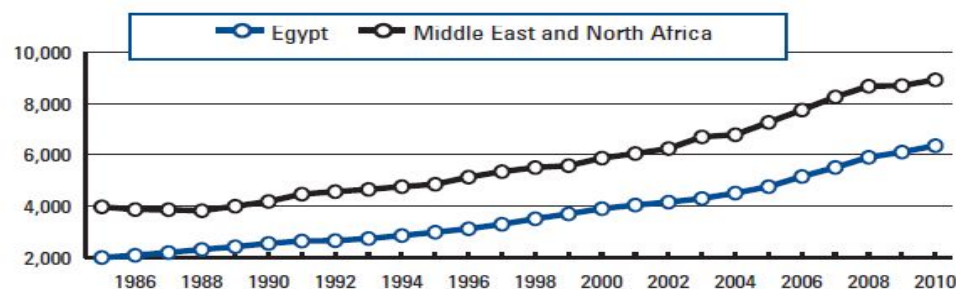


# Egypt

## Key indicators, 2010

Population (millions).....	84.5
GDP (US\$ billions).....	218.5
GDP per capita (US\$).....	2,789
GDP (PPP) as share (%) of world total.....	0.67

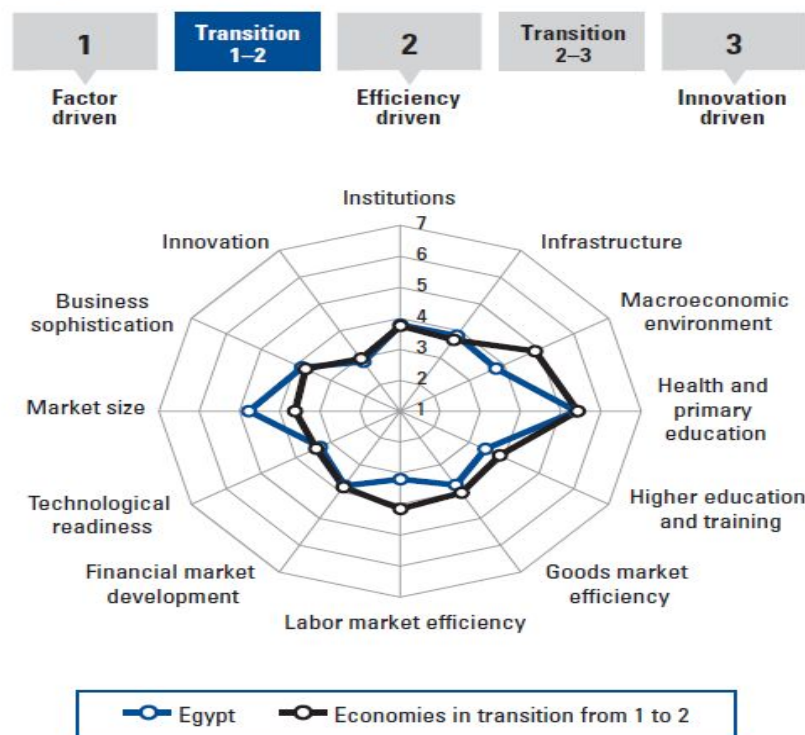
GDP (PPP) per capita (int'l \$), 1985–2010



## Global Competitiveness Index

	Rank (out of 142)	Score (1–7)
<b>GCI 2011–2012</b> .....	<b>94</b>	<b>3.9</b>
GCI 2010–2011 (out of 139).....	81	4.0
GCI 2009–2010 (out of 133).....	70	4.0
<b>Basic requirements (44.2%)</b> .....	<b>99</b>	<b>4.2</b>
Institutions.....	74	3.8
Infrastructure.....	75	3.8
Macroeconomic environment.....	132	3.7
Health and primary education.....	96	5.4
<b>Efficiency enhancers (46.8%)</b> .....	<b>94</b>	<b>3.7</b>
Higher education and training.....	107	3.4
Goods market efficiency.....	118	3.7
Labor market efficiency.....	141	3.2
Financial market development.....	92	3.8
Technological readiness.....	95	3.3
Market size .....	27	4.8
<b>Innovation and sophistication factors (8.9%)</b> .....	<b>86</b>	<b>3.3</b>
Business sophistication .....	72	3.8
Innovation.....	103	2.8

## Stage of development



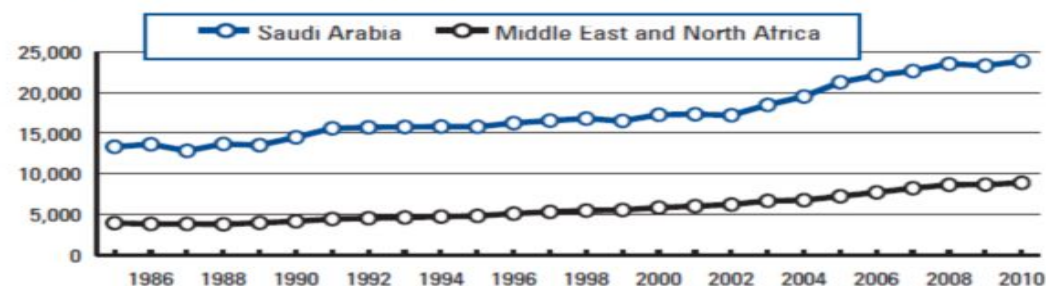


# Saudi Arabia

## Key indicators, 2010

Population (millions)	26.2
GDP (US\$ billions)	443.7
GDP per capita (US\$)	16,996
GDP (PPP) as share (%) of world total	0.84

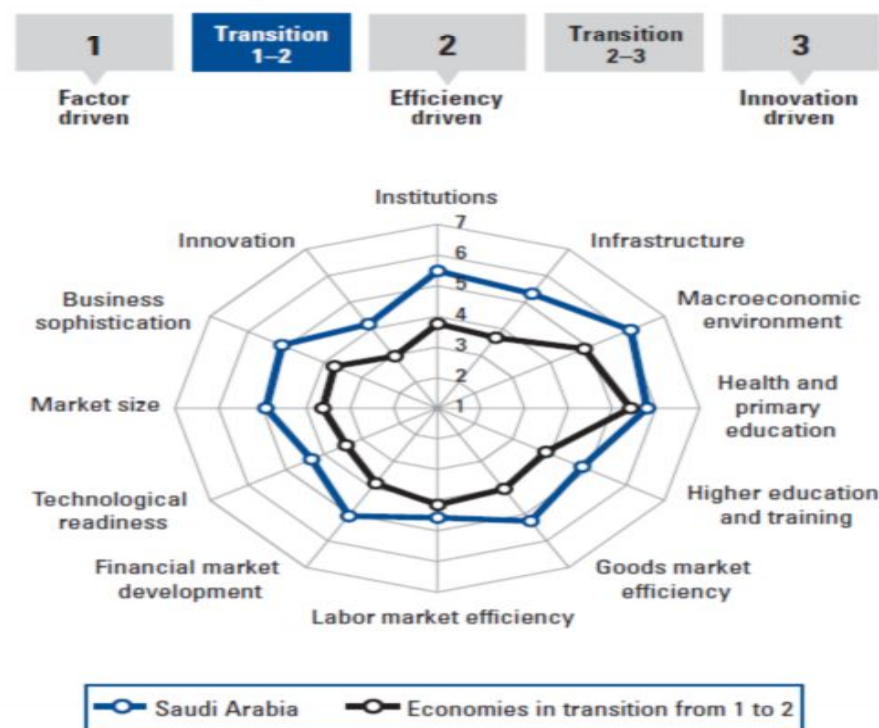
GDP (PPP) per capita (int'l \$), 1985–2010



## Global Competitiveness Index

	Rank (out of 142)	Score (1–7)
<b>GCI 2011–2012</b>	<b>17</b>	<b>5.2</b>
GCI 2010–2011 (out of 139)	21	4.9
GCI 2009–2010 (out of 133)	28	4.7
<b>Basic requirements (44.4%)</b>	<b>16</b>	<b>5.7</b>
Institutions	12	5.5
Infrastructure	25	5.3
Macroeconomic environment	12	6.1
Health and primary education	61	5.8
<b>Efficiency enhancers (40.9%)</b>	<b>24</b>	<b>4.8</b>
Higher education and training	36	4.8
Goods market efficiency	4	5.2
Labor market efficiency	50	4.6
Financial market development	16	5.1
Technological readiness	43	4.3
Market size	23	4.9
<b>Innovation and sophistication factors (14.7%)</b>	<b>24</b>	<b>4.6</b>
Business sophistication	17	5.1
Innovation	26	4.2

## Stage of development



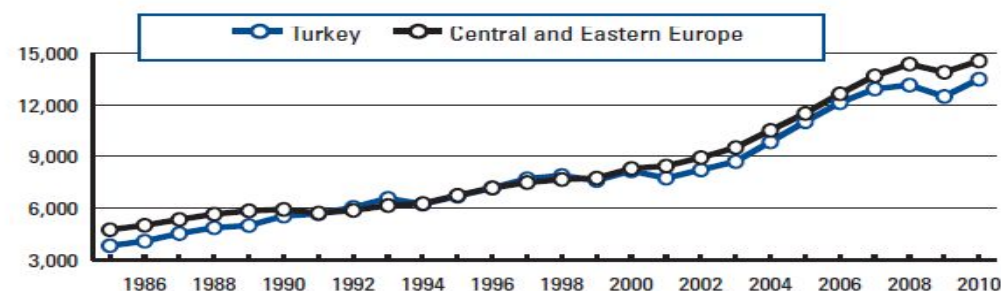


# Turkey

## Key indicators, 2010

Population (millions).....	75.7
GDP (US\$ billions).....	741.9
GDP per capita (US\$).....	10,399
GDP (PPP) as share (%) of world total.....	1.29

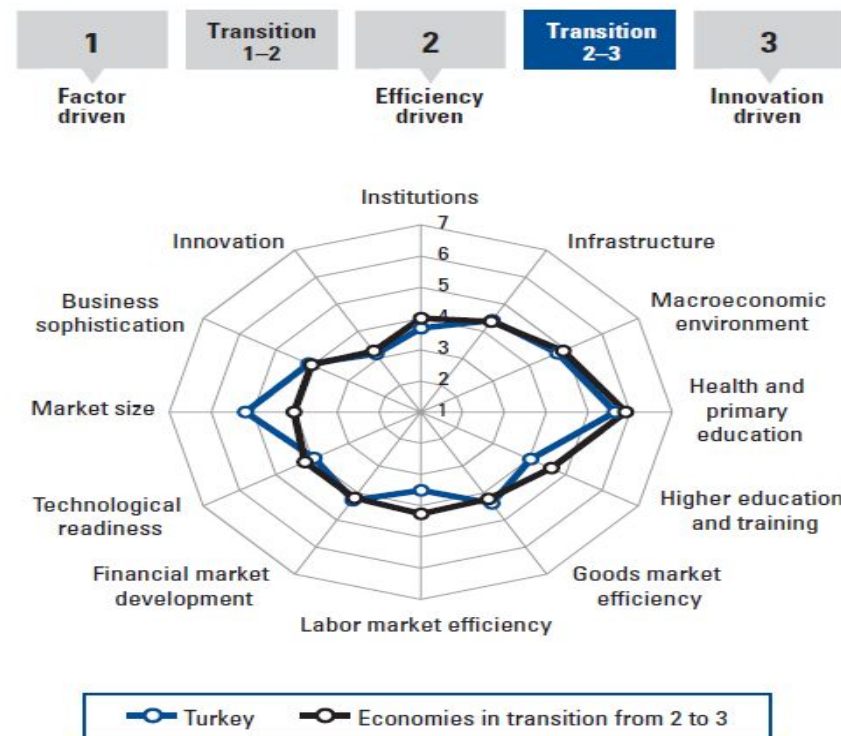
GDP (PPP) per capita (int'l \$), 1985–2010



## Global Competitiveness Index

	Rank (out of 142)	Score (1–7)
<b>GCI 2011–2012</b> .....	<b>59</b>	<b>4.3</b>
GCI 2010–2011 (out of 139).....	61	4.2
GCI 2009–2010 (out of 133).....	61	4.2
<b>Basic requirements (36.5%)</b> .....	<b>64</b>	<b>4.6</b>
Institutions.....	80	3.7
Infrastructure.....	51	4.4
Macroeconomic environment.....	69	4.8
Health and primary education.....	75	5.6
<b>Efficiency enhancers (50.0%)</b> .....	<b>52</b>	<b>4.2</b>
Higher education and training.....	74	4.0
Goods market efficiency.....	47	4.4
Labor market efficiency.....	133	3.5
Financial market development.....	55	4.3
Technological readiness.....	55	3.9
Market size .....	17	5.2
<b>Innovation and sophistication factors (13.5%)</b> .....	<b>58</b>	<b>3.6</b>
Business sophistication .....	58	4.1
Innovation.....	69	3.1

## Stage of development

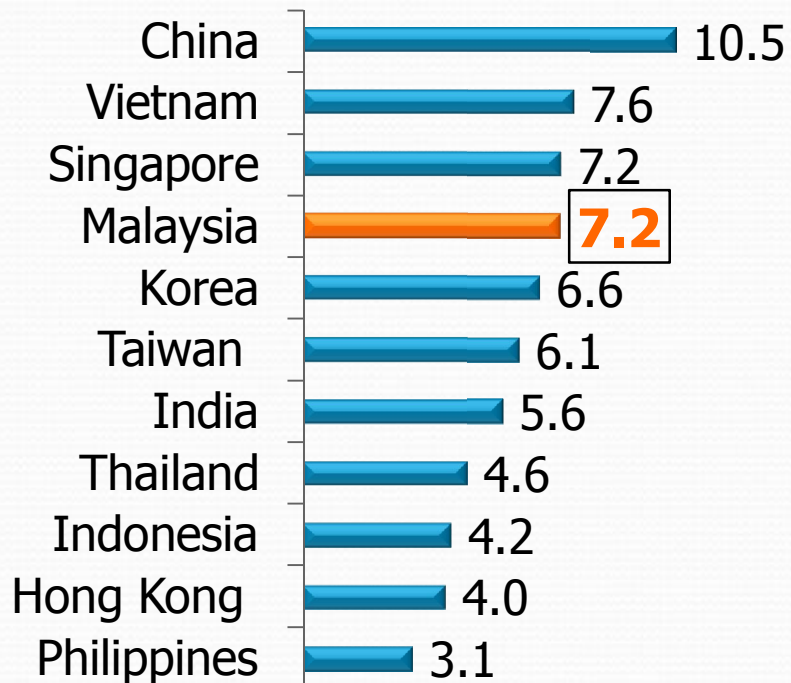


# Persisting Challenges

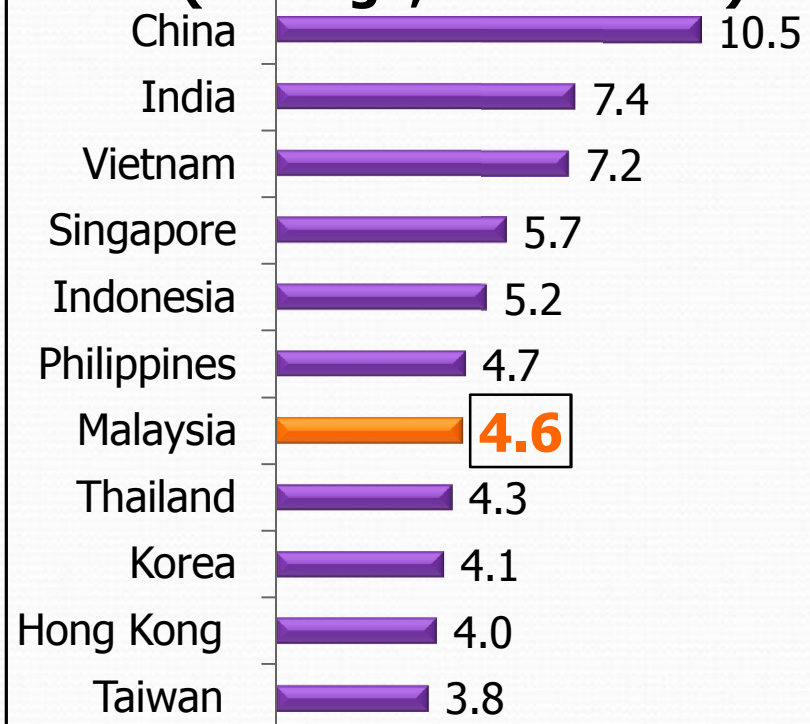
- Mindset: Lack of readiness to embrace knowledge paradigm— mental, intellectual, cultural, institutional, organisational
- Inadequate human resources and intellectual capital
- Institutional set up: weak internal capacity and linkages
- Innovating on a mass scale: scaling up successful programmes and closing down failures
- Equitable distribution of, and access to, infrastructure and opportunities: Knowledge and Digital Divide
- Conducive environment for innovation

## Malaysia's economic growth has slowed down

### GDP Growth (average, 1991-2000)



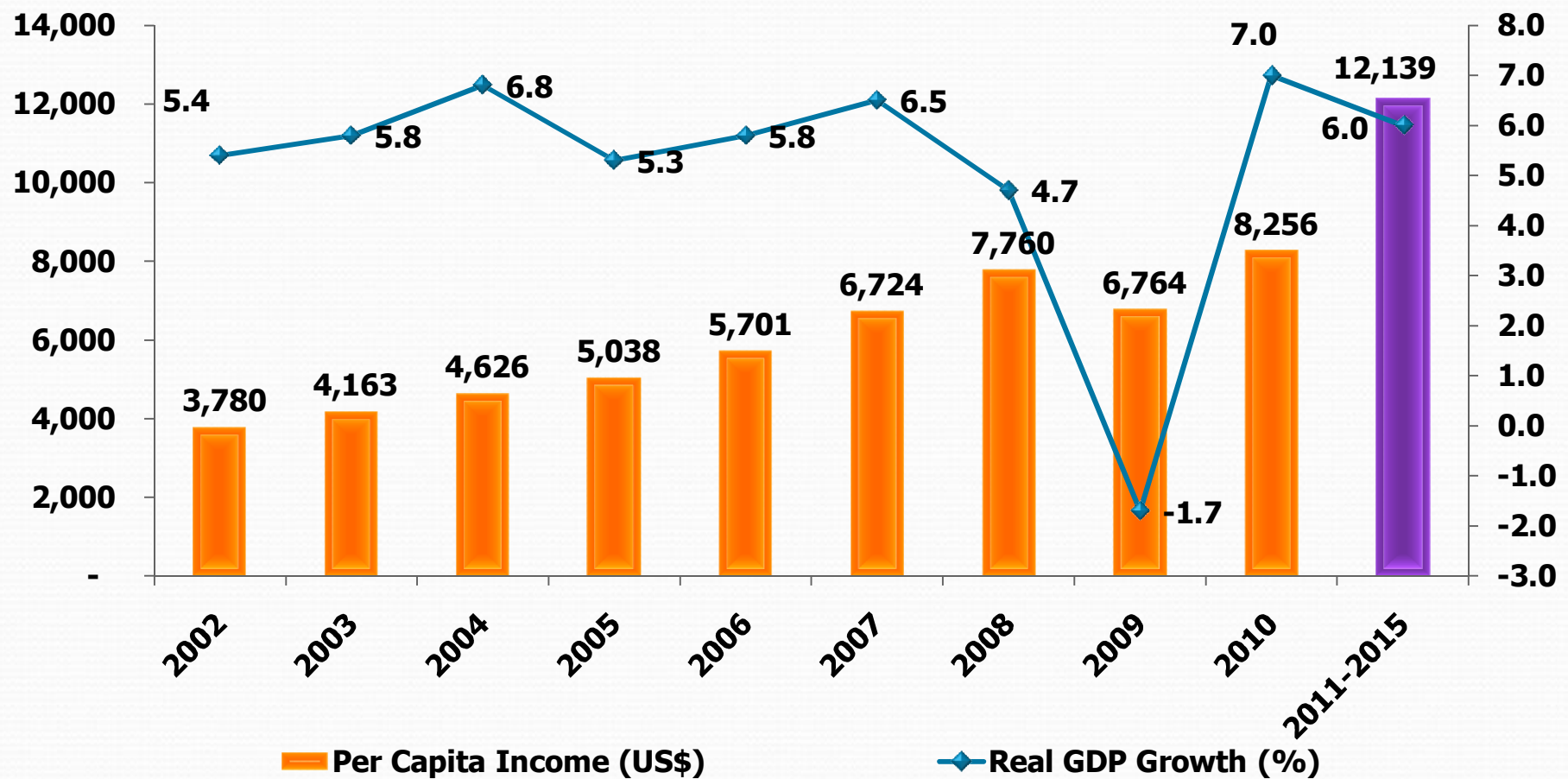
### GDP Growth (average, 2001-2010)



Source: World Economic Outlook, IMF Data Base (7 April 2011)



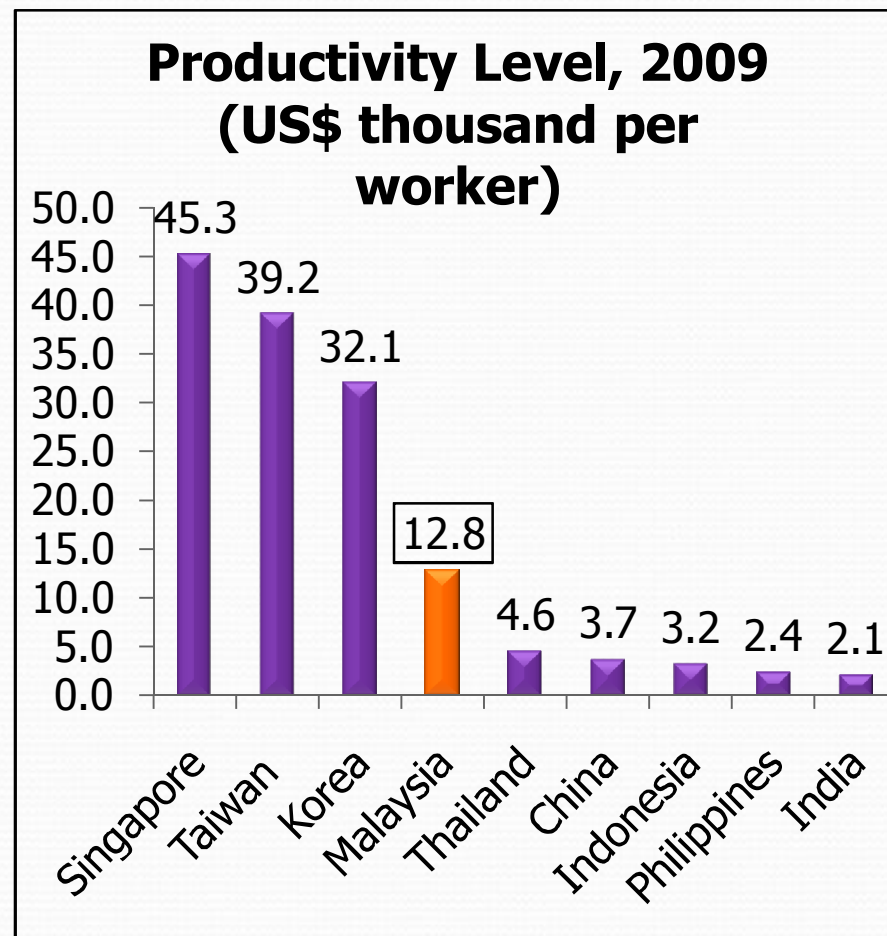
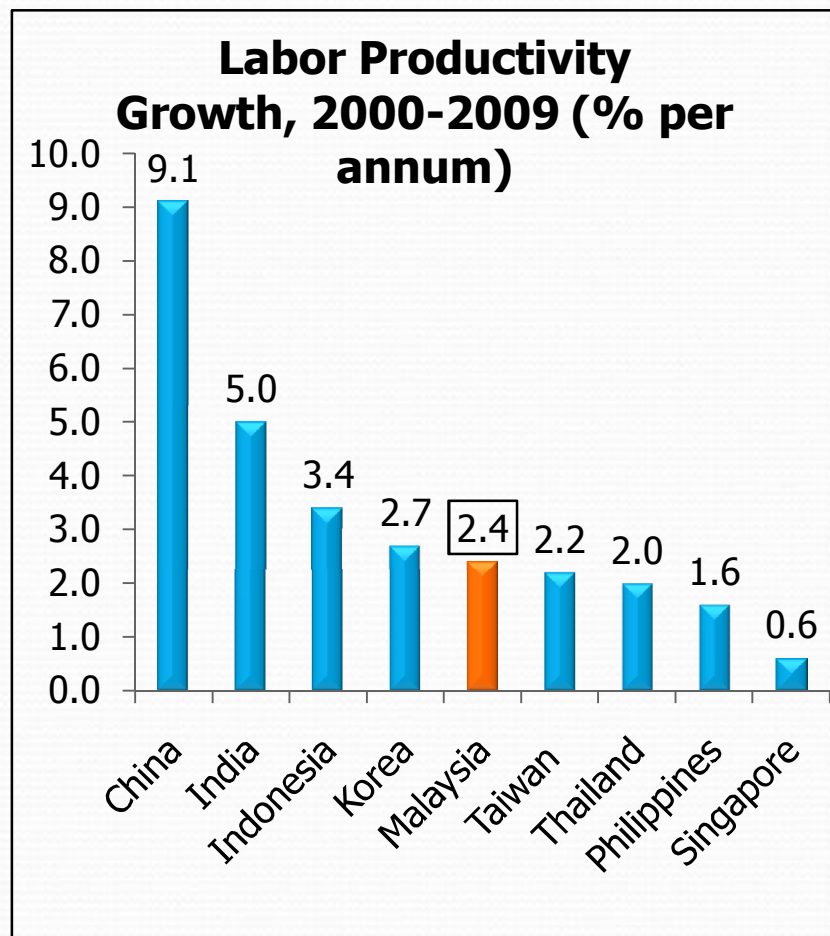
## Malaysia: Real GDP Growth and Per Capita Income



Source: 10<sup>th</sup> Malaysia Plan, and World Bank, WDI Database (17 April 2011)



Labor productivity is growing but is falling behind high-growth countries in the region



Source, UNCTAD, FDI Live Database (7 April 2011)

# Doing business ranking of selected countries

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Economy	Ease of doing business rank	Starting a business	Dealing with construction Permits	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
Singapore	1	4	2	15	6	2	4	1	13	2
Hon Kong	2	6	1	56	2	3	3	2	2	15
Korea, Rep.	16	60	22	74	15	74	49	8	5	13
Thailand	19	95	12	19	72	12	91	12	25	46
<b>Malaysia</b>	<b>21</b>	<b>113</b>	<b>108</b>	<b>60</b>	<b>1</b>	<b>4</b>	<b>23</b>	<b>37</b>	<b>59</b>	<b>55</b>
Taiwan	33	24	95	32	72	74	87	17	90	10
Vietnam	78	100	62	43	15	173	124	63	31	124
China	79	151	181	38	65	93	114	50	15	68
Indonesia	121	155	60	98	116	44	130	47	154	142
India	134	165	177	94	32	44	164	100	182	134
Philippines	148	156	156	102	128	132	124	61	118	153

## Software of Growth Rankings of Selected Asian Countries, 2010-2011 (out of 139 countries)

	Business Sophistication	Innovation	Quality of Education	Spending on R&D
Singapore	15	9	1	8
Hong Kong	17	29	25	36
Taiwan	13	7	17	9
Korea Rep.	24	12	57	12
<b>Malaysia</b>	<b>25</b>	<b>24</b>	<b>23</b>	<b>16</b>
China	41	26	53	22
Thailand	48	52	66	48
Indonesia	37	36	40	26
India	44	39	39	37
Viet Nam	64	49	61	33
Philippines	60	111	69	85

Source: Global Competitiveness Report, 2010-2011, World Economic Forum



## Malaysia: Researchers in R&D (per million people)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Malaysia</b>	<b>90</b>		<b>154</b>		<b>276</b>		<b>295</b>		<b>503</b>		<b>372</b>	
China	448	477	390	423	549	582	630	666	710	853	927	1,071
Hong Kong			1,047	1,201	1,159	1,360	1,570	1,981	2,131	2,619	2,650	
India	154		117		111					137		
Indonesia					219	205						
Korea, Rep.	2,209	2,262	2,023	2,173	2,334	2,919	3,023	3,207	3,298	3,780	4,187	4,627
Philippines								71		81		
Singapore	2,535	2,615	2,977	3,203	4,139	4,103	4,398	4,820	5,087	5,575	5,736	6,088
Thailand	100	72		169		281		281		311		
Vietnam							115					

Researchers in R&D are professionals engaged in the conception or creation of new knowledge, products, processes, methods, or systems and in the management of the projects concerned. Postgraduate PhD  
PhD students engaged in R&D are included.

Source: UNESCO Institute for Statistics

Source: Global Competitiveness Report, 2010-2011, World Economic Forum





# Top three national problems

1. Malaysia losing competitiveness in simple production and assembly activities: caught in middle-income country trap
2. Lacks technical and human infrastructure for innovation
3. Social transformation to knowledge-based society is yet to be widespread



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## Lessons learnt (1/3 )

- ❖ Top-down strategic intervention approach has again proven its efficacy
  - Political will
  - Visionary leadership
  - Creative planning process
  - Institutional reform
  
- ❖ Social transformation and economic restructuring should be addressed as separate but complementary programmes
  - Comprehensive human development for knowledge-intensive work and life activities
  - Economic restructuring needs government policy direction backed by strong incentives



## Lessons learnt (2/3 )

- ❖ Tri-sectoral partnership between public, private and civil society sectors
  - Democratising participation for inclusiveness
  - Contention vs collaboration and cooperation
  - Co-creation
  
- ❖ Communication and marketing
  - Communicating policies and strategies with clarity, consistency and transparency
  - Show and tell

## Lessons learnt (3/3 )

### ❖ Learn by doing

- Learning, unlearning, and relearning
- Take measured risks, mistakes are allowed

### ❖ Knowledge economy is an economy of innovation

- Innovation is value creation
- Creativity and inventiveness is not sufficient
- Knowledge-based innovation not limited by S&T
- Entrepreneurs are innovators: “creative destruction”
- New resources required: talent, risk capital
- National Innovation Eco-system



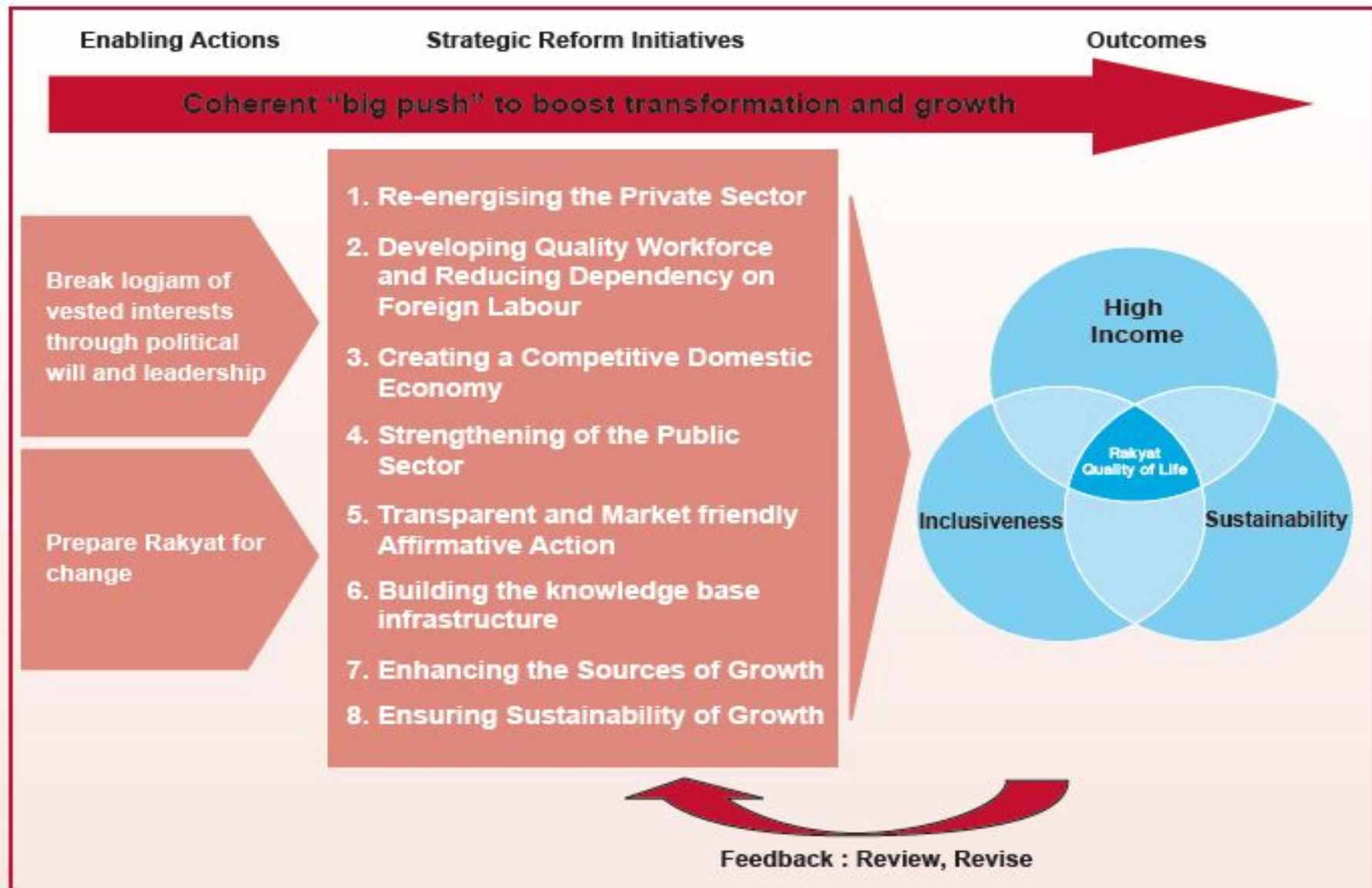
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Old Approach		New Approach
1	<b>Growth primarily through capital accumulation.</b> Focus on investment in production and physical infrastructure in combination with low skilled labour for low value added exports	<b>Growth through productivity.</b> Focus on innovative processes and cutting-edge technology, supported by healthy level of private investment and talent, for high value added goods and services
2	<b>Dominant state participation in the economy.</b> Large direct public investment (including through GLCs) in selected economic sectors	<b>Private sector-led growth.</b> Promote competition across and within sectors to revive private investment and market dynamism
3	<b>Centralised strategic planning.</b> Guidance and approval from the federal authorities for economic decisions	<b>Localised autonomy in decision-making.</b> Empower state and local authorities to develop and support growth initiatives, and encourage competition between localities
4	<b>Balanced regional growth.</b> Disperse economic activities across states to spread benefits from development	<b>Cluster- and corridor-based economic activities.</b> Concentration of economic activities for economies of scale and better provision of supporting services
5	<b>Favour specific industries and firms.</b> Grant preferential treatment in the form of incentives and financing to selected entities	<b>Favour technologically capable industries and firms.</b> Grant incentives to support innovation and risk-taking to enable entrepreneurs to develop higher value added products and services
6	<b>Export dependence on G-3 (US, Europe and Japan) markets.</b> Part of production chain to supply consumer goods and components to traditional markets	<b>Asian and Middle East orientation.</b> Develop and integrate actively into regional production and financial networks to leverage on flows of investment, trade and ideas
7	<b>Restrictions on foreign skilled workers.</b> Fear that foreign talent would displace local workers	<b>Retain and attract skilled professionals.</b> Embrace talent, both local and foreign, needed to spur an innovative, high value added economy

Old Approach	New Approach
Growth primarily through capital accumulation. Focus	Growth through productivity. Focus on innovative processes and cutting edge





## **What Is Different About The ETP?**

The ETP builds on the direction outlined in the Tenth Malaysia Plan to develop a markedly different approach to delivering Government's objectives. There are five specific aspects of the ETP that are new and distinctive, which will ensure that the ETP delivers the improved outcomes that Malaysia needs.

### **FOCUS on Key Growth Engines – 12 NKEAs**

Malaysia will exploit its competitive advantages by prioritising public investment and policy support behind a limited number of key growth engines. The ETP focuses on the 12 NKEAs announced in the Tenth Malaysia Plan. These NKEAs are expected to make substantial contributions to Malaysia's economic performance.

### **Private Sector-led, Government Facilitated**

The private sector will take the lead role in terms of making investment and employment decisions. The projects and opportunities that are identified in the ETP have been co-created by the public and private sectors. Importantly, most of the projects are mainly funded from private sources. The Government's role will be that of an active facilitator of private sector-led development through resource and policy support.

### **131 Concrete Entry Point Projects to Kick Start the Programme**

The ETP is focused on actions and not concepts. The ETP contains well-developed and specific ideas and actions to grow each of the NKEAs, rather than broad statements of intent. These proposed ideas have been developed through collaboration between the public and private sectors, and in many cases these projects are close to being launched. The ETP also identifies a series of specific policy and regulatory reforms that are needed to drive growth in the NKEAs and Malaysia's broader economy.

### **Anchoring on GNI to Get Value for Money**

Projects and initiatives have been selected on the basis of rigorous financial and economic analysis to ensure that they maximise the return on public sector investment, i.e. GNI per ringgit of public investment. In a challenging fiscal environment, government spending and investment will be directed only to those areas where it can be used in a highly productive manner.

### **PEMANDU to Ensure Strong, Transparent Delivery**

The Government has established an ETP Unit in PEMANDU to deliver and monitor this programme. Clear and demanding key performance indicators will be specified for each of the individual NKEAs and for the ETP as well as for the inclusiveness and sustainability measures. Performance on all measures will be reported publicly every year.





# Nurturing an innovative society

Create a national movement: innovation everywhere -for all and by all

- Malaysian Innovation Foundation: unleashing grassroots innovation
- Malaysian Agency for Innovation: capitalising on public-funded R&D outputs
- 131 concrete entry point projects under ETP, monitored by PEMANDU

## A return to human values by revisiting the *Maqasid al Shari'ah*

“The very objective of the *Shari'ah* is to promote the well-being of the people, which lies in safeguarding their faith (*din*), their self (*nafs*), their intellect (*'aql*), their posterity (*nasl*) and their wealth (*mal*). Whatever ensures the safeguard of these five serves public interest and is desirable and whatever hurts them is against public interest and its removal is desirable.”

# Systems View of *Maqasid*



**Din**

Personal change

**Din (*faith*)**

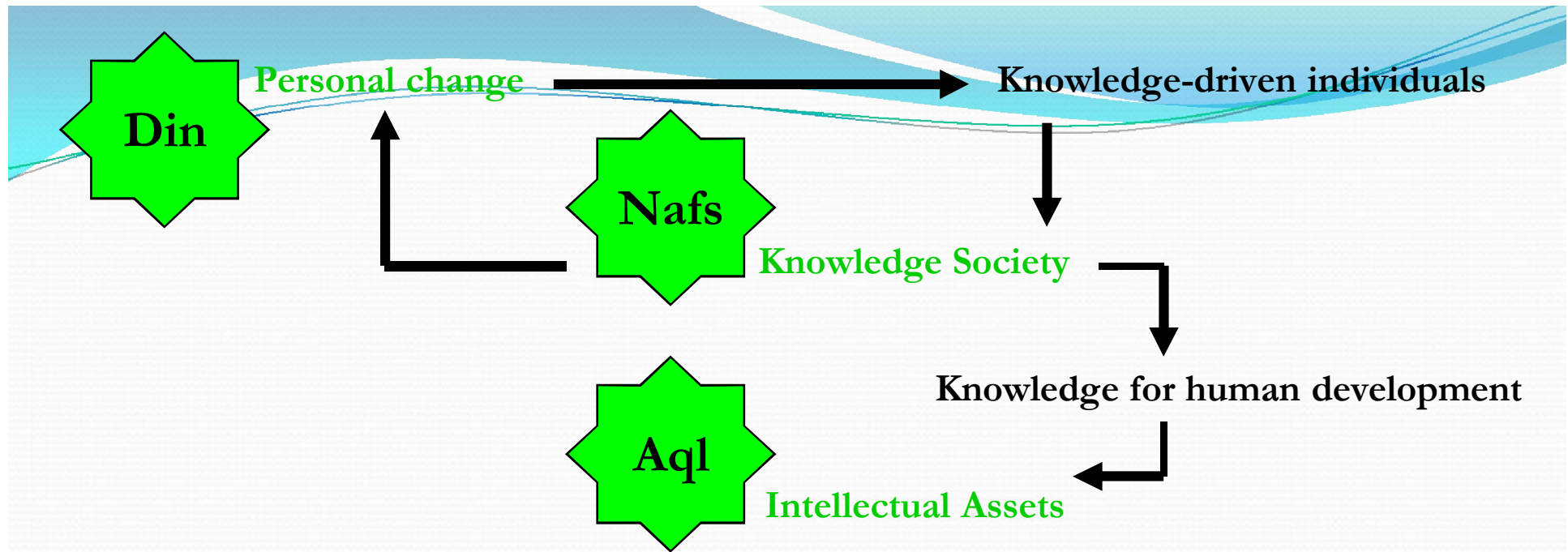
- Provides strategic vision, intent and purpose
- Shapes values, mindset, attitudes and behaviour
- Protection of life, property and honour of every individual
- Promotes socio-economic justice and hinders injustice)
- Provides foundation for enabling environment to development





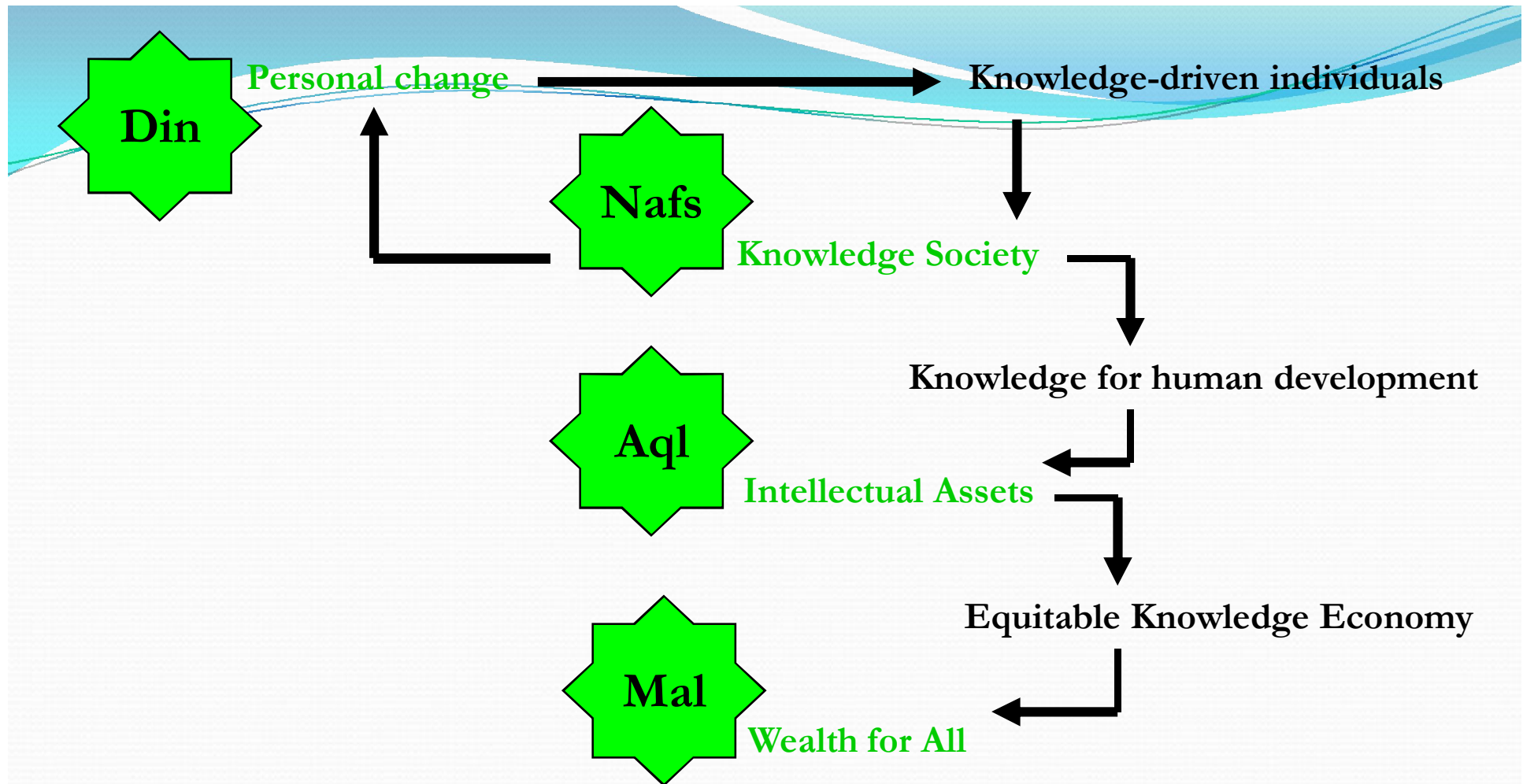
### **Nafs (*self*)**

- Change begins from within
- Man created in Creator's image: good by nature
- Entrusted with resources to fulfill needs of all
- Given freedom, conscience, intellect and Divine Guidance



### *Aql (intellect)*

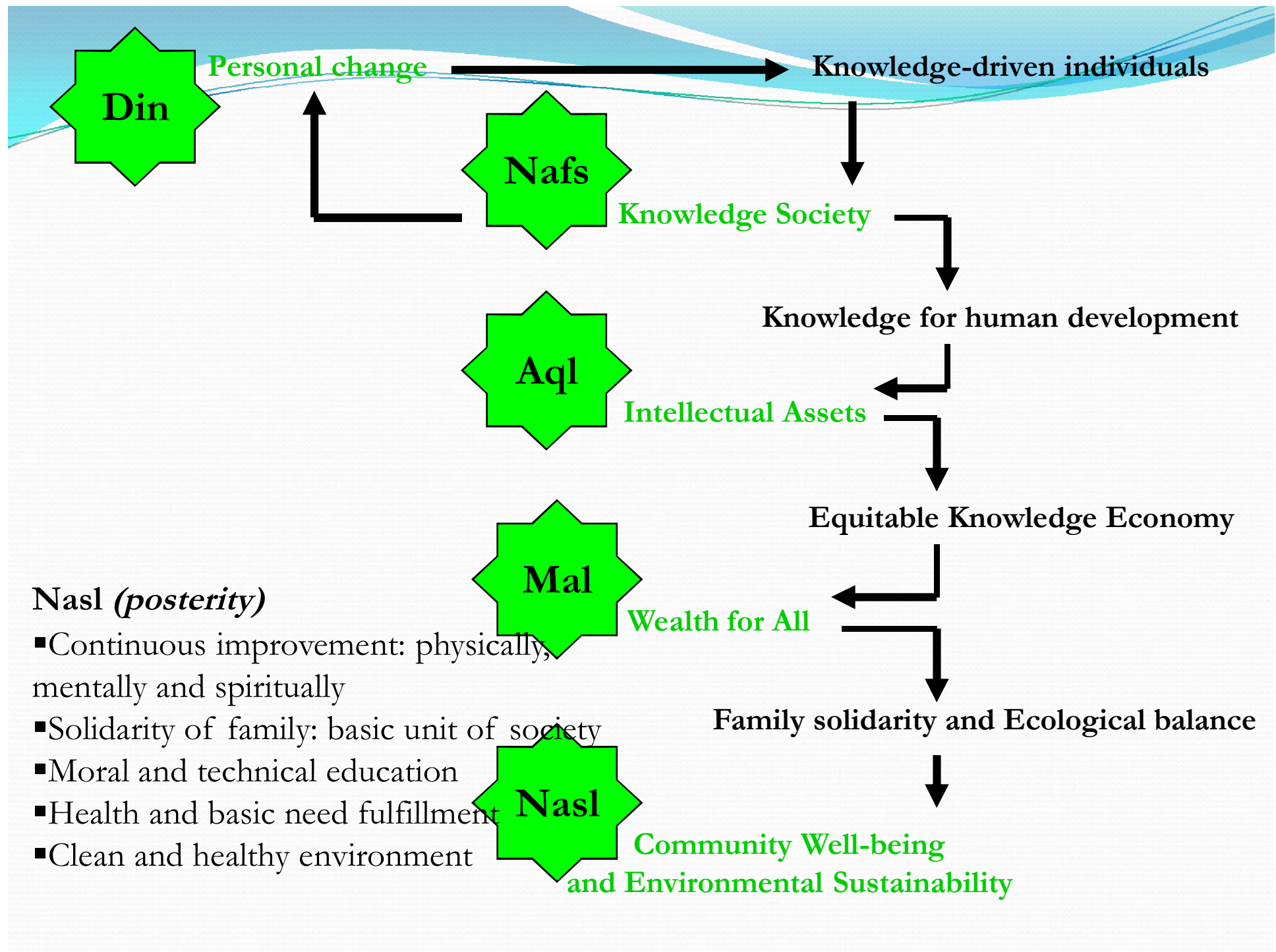
- Revelation and reason interdependent, both necessary
- Belief system reinforced by reason
- Education obligatory to train the intellect

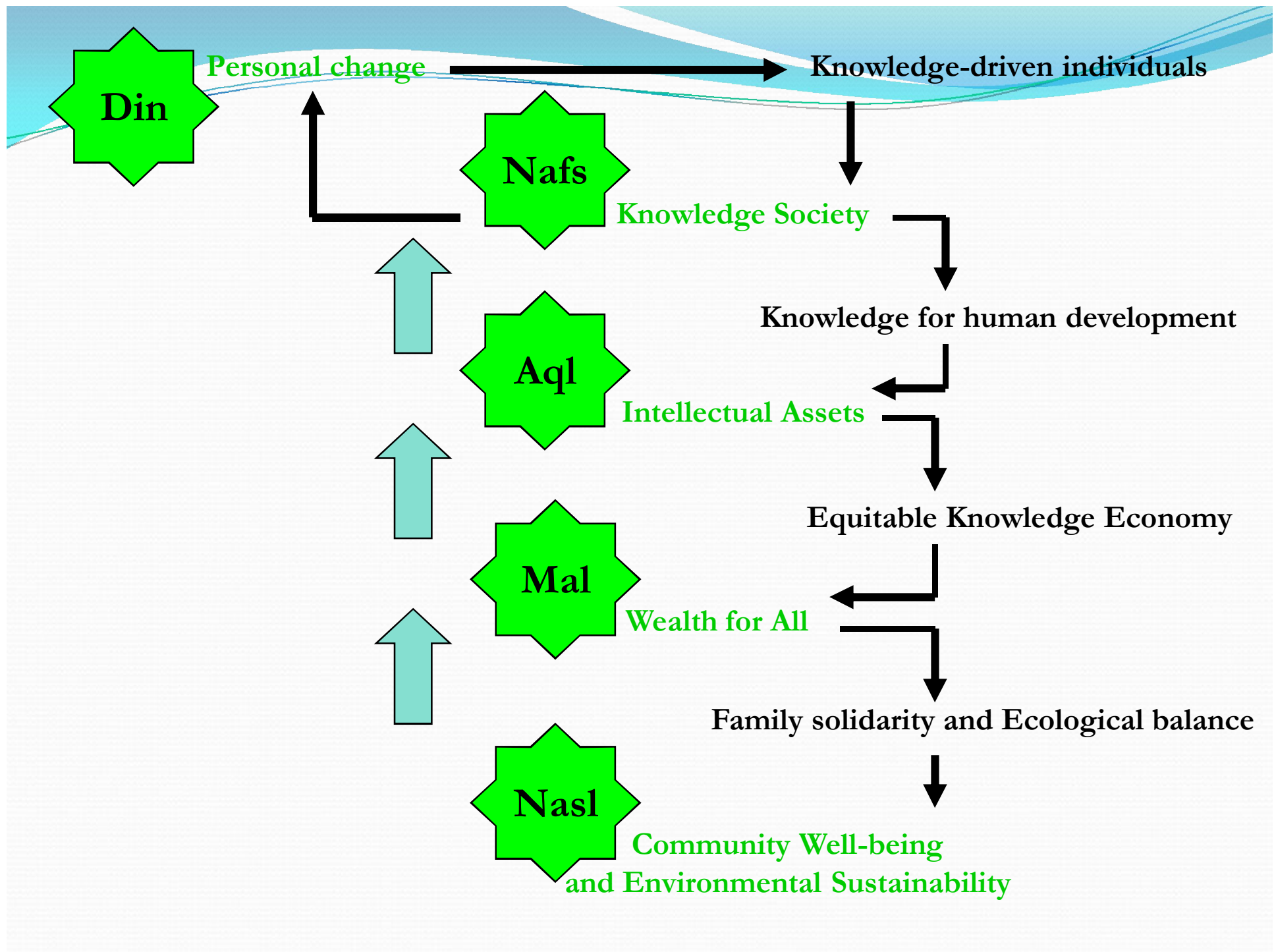


### **Mal (wealth)**

- Trust from God, to be used for human well-being and environmental protection
- A balanced life: social, economic and spiritual objectives desired
- Equitable distribution and poverty eradication encouraged







# Strategic thrusts from *Maqasid al Shar'iah* perspective



Strategic vision, intent and purpose of Knowledge Society



Personal change in mindset, attitudes and behaviour as basis to build Knowledge Society



Strategic management to realise Knowledge Society and production of intellectual assets



Use of knowledge to develop equitable Knowledge Economy with wealth (spiritual, social and material) for all



Safeguarding interests of present and future generations by enhancing family and social solidarity and preserving ecological balance



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# Closing remarks

- Malaysia has made significant progress in addressing knowledge-based development, but major challenges remain
- It suffers from the “middle-income country trap”
- Steps are being taken to achieve high income country status
- National economic and social transformation is necessary
- Return to human values will ensure sustainable development



END

*thank you for your attention*