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Malaysia: The Economic Transformation Program (B)

I must execute or be executed.

– Najib Razak, Prime Minister of Malaysia, 23 March 2010¹

On 25 October 2010, Prime Minister Najib Razak launched the Economic Transformation Program (ETP), which was built on the New Economic Model that aims to make Malaysia a high-income nation by 2020 in an inclusive and sustainable manner.

The ETP's 10-year targets were clearly defined: to generate US\$444 billion in investments in order to generate a Gross National Income (GNI) of US\$523 billion and create 3.3 million incremental jobs, in the end-point year of 2020. The 2020 GNI translates into a GNI per capita of US\$15,000 to make Malaysia a high-income economy, as defined by the World Bank.²

Business as usual is not good enough

Najib realized that to achieve high-income nation status, the business as usual approach was no longer sufficient. Bold and radical changes coupled with rapid decision-making, and execution was desperately needed.

He enlisted the help of a man with a great deal of experience in the corporate world, Idris Jala, for the task. Idris was sworn in as Minister in the Prime Minister's Department and Chief Executive Officer of Performance Management and Delivery Unit (PEMANDU) on 1 September 2009. He initially worked on the Government Transformation Program, tackling pressing social issues: crime, corruption, education, poverty, basic infrastructure in rural areas, urban public transport, and cost of living.

¹ Speech to Credit Suisse Asian Investment Conference, Hong Kong, 2010.

² "Economic Transformation Programme: A Roadmap for Malaysia," PEMANDU (Performance Management and Delivery Unit), Prime Minister's Department, Malaysian Government, 26 October 2010, http://etp.pemandu.gov.my/upload/etp_handbook_chapter_1-4_economic_model.pdf, pp. 75, 111, accessed September 2012.

Professor Diego Comin and independent researcher Ku Kok Peng prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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Idris, who rescued Malaysia Airlines from bankruptcy by turning around the national carrier from a nine-month record loss of US\$400 million to a record profit of US\$260 million in less than two years, was then asked to spearhead the ETP.³

Staying Focused

Idris' radical transformation approach was unprecedented. He invited more than 1,000 private sector businessmen and professionals, top civil servants, and non-governmental organization activists into a mammoth 1,000-person workshop with the purpose of determining 12 National Key Economic Areas (NKEAs).

This was a two-step process. First, the compounded annual growth rate (CAGR) for each sector was determined by taking the simple average of: (1) Malaysia's CAGR between 2000 and 2009, (2) the global mean CAGR between 2010 and 2020, and (3) the global best practice CAGR factored against the probability of success in Malaysia by 2020. The CAGR for each sector was then applied to its income in 2009 to determine the projected income in 2020.

Combined, these NKEAs - Oil, Gas & Energy, Financial Services, Palm Oil & Rubber, Agriculture, Communications Content & Infrastructure, Business Services, Electrical & Electronics, Wholesale & Retail, Healthcare, Education, and Tourism - were expected to contribute 73 percent of Malaysia's GNI in 2020, indicating the magnitude of their importance.^{4,5}

This collaboration between the public and private sectors was then taken to the next stage: the labs. Involving over 500 participants from almost 300 organizations (350 persons from 200 companies and 150 persons from 60 public institutions), these labs, which lasted nine weeks, were hothouses for the purpose of determining the baseline environment and case for change, problem-solving, and prescribing strategic shifts.

Furthermore, the lab participants had to refine the details of specific projects that will attract investment, create incremental jobs (especially those with higher pay), and generate a positive GNI. They were also asked to identify private sector project champions as well as the required facilitation and policy support of the government and challenged to promote private investment over public investment.

The Pengerang Independent Deepwater Oil Storage Terminal was one of many examples. As part of a plan to develop a Malaysia-Singapore regional oil storage mechanism, a refining and trading hub similar to that of Amsterdam-Rotterdam-Antwerp, a five million cubic meter oil storage facility was proposed by the Johor state government, Vopak, and Dialog as a public-private partnership initiative. The investment of US\$1.4 billion, 90 percent funded by the two private entities, was expected to

³ Malaysia Airlines, "Five Star Value Carrier: Business Transformation Plan (BTP 2)," January 2008, http://docsfiles.com/pdf_five_star_value_carrier_business_transformation_plan_btp_2.html, accessed September 2012.

⁴ Greater Kuala Lumpur was not included to avoid double-counting.

⁵ "Economic Transformation Programme: A Roadmap for Malaysia," PEMANDU (Performance Management and Delivery Unit), Prime Minister's Department, Malaysian Government, 26 October 2010, http://etp.pemandu.gov.my/upload/etp_handbook_chapter_1-4_economic_model.pdf, pp. 85, 94, accessed September 2012.

generate over US\$500 million in GNI and create 800 new jobs by 2020.⁶ The federal government provided fiscal incentives, while the state government facilitated various approval processes.

Projects such as the above were also subjected to over 600 syndication meetings with stakeholders from the private sector, government, and non-governmental organizations to ensure that the ideas were truly robust and market-driven.

Playing the Game of the Impossible

The projects that were implementable in the foreseeable future, became known as Entry Point Projects. In all, 131 were identified, supplemented by 60 Business Opportunities with ready frameworks to be converted into EPPs in the future.⁷

To illustrate, Tourism NKEA has 12 EPPs, ranging from establishing three new premium outlets, creating global biodiversity hubs, and developing an eco-nature integrated resort, to targeting more international events, establishing Malaysia as a leading business tourism destination, and improving rates, mix, and quality of hotels. Development of food and beverage outlets, local transportation, and tour operations were Business Opportunities identified for the future.

When consolidated, the 131 EPPs were expected to attract a cumulative investment of US\$444 billion, create 3.3 million incremental jobs over 10 years, and generate US\$523 in GNI in the end-point year of 2020, raising GNI per capita from US\$6,700 in 2009 to US\$15,000 in 2020.⁸ETP calls for the investment to be drawn from the private sector, government-linked companies, and the government in a 60:32:8 ratio, with a domestic-foreign investment split 73:27, averaged over 10 years. If successful, this breakdown will propel private investment growth to 12.8 percent between 2011 and 2015.

For Idris, it is crucial for Malaysia to be anchored on the correct goals. He asserted, “to transform the Malaysian economy, our ‘true north’ is extremely clear: investment, jobs, and GNI. These targets have to be stretched to get people to think out of the box and come out with real, but creative solutions. That is the essence of the game of the impossible.”⁹

‘Delivery’ is not optional after becoming ‘Pregnant’

To make the government accountable for its execution, extensive public engagements were held with the larger business community and the public-at-large after the workshop and labs had ended. Open days were held to showcase the output, attracting more than 13,000 people. The 605-page ETP roadmap itself was an exercise to further make the government ‘pregnant’ with the promise to deliver the actions prescribed; hence there is no option but to ‘deliver’ on these promises. Lead

⁶ PEMANDU press release, “ETP in overdrive with 19 developments worth RM67 billion,” 11 January 2011, http://www.pmo.gov.my/?menu=news&page=1729&news_id=5819&news_cat=4, accessed September 2012.

⁷ Executive Summary, “Economic Transformation Programme: A Roadmap for Malaysia,” PEMANDU, Prime Minister’s Department, Malaysian Government, Putrajaya, Malaysia, 26 October 2010, http://etp.pemandu.gov.my/upload/etp_executive_summary_booklet.pdf, pp. 6, 16, accessed September 2012.

⁸ “Economic Transformation Programme: A Roadmap for Malaysia,” PEMANDU, Prime Minister’s Department, Malaysian Government, 26 October 2010, http://etp.pemandu.gov.my/upload/etp_handbook_chapter_1-4_economic_model.pdf, pp. 59, 75, accessed September 2012.

⁹ Idris Jala, interview with casewriter.

ministers for the NKEAs were identified, key performance indicators were set for each minister, and monthly steering committee meetings chaired by lead ministers with all relevant NKEA stakeholders were held under the close monitoring of PEMANDU. This culminated in two bi-annual 'report card' discussions with Prime Minister Najib on the progress of the NKEAs under the charge of the lead ministers. With explicitly detailed action items, there is no room to hide behind opaque and imprecise statements.

Becoming Competitive

To facilitate the accomplishment of the NKEAs, the government embarked on six cross-sector clusters of policy reforms known as Strategic Reform Initiatives (SRIs). They cover competition, standards and liberalization, public finance, public service delivery, human capital development, government's role in business, and narrowing disparities.

The key goal was to make Malaysia competitive globally. Efforts such as establishing and enforcing competition laws to remove anti-competitive agreements and abuse of dominant positions, accelerating standards adoption and development in order to enable Malaysian goods and services to compete internationally, and liberalizing key services sub-sectors to raise competencies, are good examples of how this goal was approached. Others include reducing the tax gap to strengthen Malaysia's fiscal position, up-skilling and re-skilling programs and setting minimum wage to spur productivity, divesting government-controlled companies to reduce crowding-out the private sector, and implementing a market-friendly targeted affirmative program to promote Bumiputera competitiveness that is needs-based and transparent and has an exit strategy.

Execution, Execution, Execution

The first year's results of the ETP were far ahead of the ETP's original targets. A committed investment of US\$59.7 billion was secured, leading to a GNI and incremental jobs forecast of US\$43.2 billion and 313,741, respectively.

In reviewing the progress from 2011, Idris said that 2012 will not be a year in which Malaysia introduces new programs, but rather one in which the country must follow through on existing programs and execute, execute, execute.¹⁰

¹⁰ Idris Jala, interview with casewriter.

Exhibit 1

Methodology on the selection of NKEAs

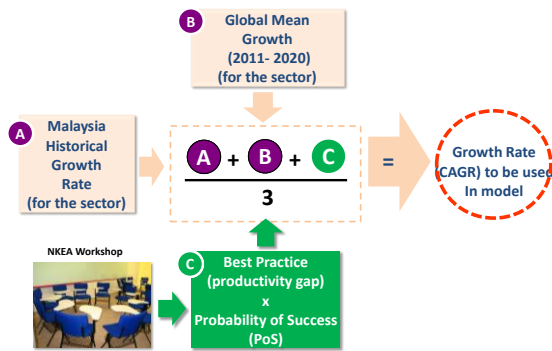
Formula

Sector's current income	X	Growth Rates (CAGR)	=	Sector's new projected income
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|--|--|---|
| <p>Step 1</p> <ol style="list-style-type: none"> 1. Take all sectors individual contribution GNI per capita 2. Rank them by order of contribution | <p>Step 2</p> <ol style="list-style-type: none"> 3. Establish Malaysia's historical growth per sector 4. Establish international benchmarks (historical & projections / forecasts) 5. Determine Malaysia's projection based on (3) & (4) above | <p>Step 3</p> <ol style="list-style-type: none"> 6. Rank all sectors by order of contribution 7. Select the sectors that contribute (~50% of the GNI per capita) |
|--|--|---|

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Formula to determine growth rate (CAGR)



Source: Pemandu, Idris Jala Presentation to Malaysia IXP, January 2012.

Exhibit 2

Projecting 2020 GNI Contribution

Step 1: Starting list of sectors		X	Step 2: Malaysia growth potential	=	Projected 2020 GNI contribution ³
Sectors	GNI per capita USD (2008 prices)		CAGR ² (Percent, 2008 - 2020)		GNI per capita USD (2020 prices)
1 Oil & gas and petroleum products	1,421		3.8%		2,782
2 Financial services (incl Islamic)	588		6.3%		1,527
3 Electrical and electronics	532		3.7%		1,034
4 Palm oil and related products	595		6.0%		1,435
5 Wholesale and retail	504		2.8%		916
6 Tourism	349		8.0%		1,099
7 Automotive and assembly	252		2.0%		405
8 Education	245		6.4%		647
9 Forestry and related products	224		3.4%		423
10 Rubber and plastic products	217		3.2%		401
11 Telecommunications	217		5.7%		528
12 Metal products & heavy equipment	210		2.9%		373
13 Business services (incl IT & BPO)	210		9.5%		775
14 Construction	189		3.4%		356
15 Food processing	91		4.5%		194
16 Transport and storage	176		3.5%		335
17 Utilities	175		2.2%		288
18 Health services and products ¹	147		8.0%		459
19 Livestock and fisheries	119		3.1%		215
20 Real estate	105		8.3%		340
21 Rice paddy and food crops	77		3.2%		144
Others	357		5.0%		804

1 Including pharmaceuticals and related equipment; 2 Compounded annual growth rate; 3 Assumes 2% inflation p.a.
SOURCE: Team analysis

PEMANDU

Source: Pemandu, Idris Jala Presentation to Malaysia IXP, January 2012.