

Innovation to empower people, country

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Malaysians are used to hearing that the economy or gross domestic product is growing. However, the benefits are not felt when facing the challenges in daily life. (insert) Dr Nungsari Ahmad Radhi. FILE PIX

Economist **DR NUNGSARI AHMAD RADHI** sheds light on how the Madani Economy will help the people and country

WHEN launching the "Madani Economy: Empowering the People" initiative on July 27, Prime Minister Datuk Seri Anwar Ibrahim outlined two main focuses.

The first is to restructure the economy so that the country can once again become a leader in Asia. The second is to raise the people's quality of life by increasing economic drive, encouraging investments and strengthening local industries, so that Malaysians may become more innovative and competitive.

Question: In simple terms, what is 'Madani Economy: Empowering the People', and what benefits does it bring?

Answer: First of all, we should understand what is meant by "Madani Economy".

Madani Economy is based on a philosophy that economic development and growth is influenced by social factors, values and societal norms. Therefore, a concept and economic development policy must be based on social factors, namely the factors of civilisation advocated by Malaysia Madani.

That is why Madani Economy emphasises the issue of value and development, as well as regulating institutions in society, including social and economic institutions.

This aspect of civilisation is also in line with the foundation of Malaysia's formation, as aspired by the late Tunku Abdul Rahman Putra Al-haj, and enshrined in the Constitution.

We also take lessons from past policies that intended to develop the country, but failed to achieve their goals; from Vision 2020 to the New Economic Model (MEB) — solely aiming for quantitative growth targets had not only failed to achieve the policies' targets, but growth was also not equitably distributed.

So the question now is, what is the basic goal of the Madani Economy?

Realising that the country's economy is on a slower track; the rate of growth, which is tapering off; the inequality of income/wealth distribution; and a lack of competitiveness to attract investor confidence, the Madani Economy framework aims to carry out reforms.

It not only restores the country's economic vitality, but also generates growth that improves the people's wellbeing and the country's competitiveness.



The important thing is that the government needs to manage the economy to generate meaningful growth so that there are decent jobs and wages for the people.

The Madani Economy framework is focused on rebuilding the "Malaysia House" by strengthening its foundation, raising the floor and ceiling, and developing its pillars.

The foundation comprises governance and regulatory framework. The bottom line is providing a social safety net to all citizens. The floor and ceiling includes efforts to generate growth and national competitiveness. The pillar is the driving force behind Malaysia's home — the public sector, the private sector and the third sector that will be emphasised by this policy, namely the voluntary (not-for-profit) and trust/waqf institutions.

Q: There are experts who say that the Madani Economy is no different from MEB put forth by former prime minister Datuk Seri Najib Razak, and both are said to be non-beneficial to the people. Is this view insightful, and if not, how does the Madani Economy differ from MEB?

A: I don't want to comment on the facts that they used to create the Madani Economy. But we refute claims by those who say that Madani Economy is the same as MEB.

MEB is not based on aspects of civilisation and society. It was also not implemented properly. Najib only managed to implement the project-based Economic Transformation Programme (ETP), and not MEB.

Every year, Malaysians are used to hearing that the economy, or gross domestic product (GDP) in technical terms, is growing. However, the benefits are not felt when facing the challenges in daily life.

Why is this happening and does the Madani Economy have a solution for the inconsistency between GDP growth and the people's quality of life?

The prime minister himself used this reason — what is the use of economic growth that cannot be felt? Not only is it getting slower now, it's also not fair in distribution. This is one of the premises of the Madani Economy as I explained above.

If we look at the economic activities that generate growth, we see several characteristics that can explain the overall low level of wages and unequal distribution of benefits.

First, the country's economy is still stuck in the plantation and commodities sector — a legacy of colonialism that uses little capital/technology, vast land and a large unskilled workforce.

This causes the income distributed to labour in the form of wages to be low. There are also many manufacturing sectors that involve assembly only, where the added value is low. Therefore, the workers' salary is also low.

Likewise the construction sector, where the use of technology is low and wages are low. Furthermore, low-skilled foreign workers are included in such large numbers that they also emphasised wages.

The service sector in Malaysia, except tourism, depends solely on domestic demand.

The income level in the domestic market is not high, resulting in a purchasing power that is weak. We are entering a cycle where our economy, which depends on domestic demand, is shrinking, and the income and wages are not high.

As long as we do not change this structure by improving the country's competitiveness, or solidifying the presence of local companies in the international market, as well as increasing foreign trade, we will be unable to put the country on a new path that benefits people and brings prosperity.

Another big problem facing the people is the rising cost of food. Although the Madani government often publicises the contraction of inflation after the change in government, the fact is that when there is inflation, the prices of food and basic goods will still increase. What can the government do to lower the cost of living?

The phenomenon of inflation has various causes. First, this is a global phenomenon caused by the Russian-Ukrainian war, which simultaneously affects the world food trade.

Second is the sudden increase of interest rate by the United States Federal Reserve. This causes the dollar exchange to strengthen against other currencies, including the ringgit. As a result, the value of all imported goods and services has sharply increased.

Since Malaysia imports much of its food, food prices will also go up. Although inflation has now peaked and the pressure on prices to rise further has eased, they have already risen in the past.

Therefore, the government has to act prudently so that investors will have confidence in the country's future.

Among other things, the government has emphasised good governance and improving financial management. The launch of the Madani Economy is also an effort to put all government initiatives in a comprehensive framework. Otherwise, investors will not invest in Malaysia, and this will further weaken the ringgit.

The government is also directly controlling the ceiling price of basic goods. In addition, price subsidies are still being continued. Plus, targeted groups are given cash assistance to cover their loss of purchasing power due to inflation.

The important thing is that the government needs to manage the economy to generate meaningful growth so that there are decent jobs and wages for the people.

The weak value of the ringgit compared with 10 to 20 years ago has also led to an increase in food prices due to the country's high dependence on food from foreign countries.

So, can the Madani Economy help strengthen the value of the ringgit, and what is the Madani Economy's approach to reducing food costs?

I have already mentioned the short-term factors that affect the value of the ringgit. In the long term, the value depends on demand. What is the reason that makes people or companies want to hold ringgit? If the reason reduces, the value will also come down.

In the last 20 years, Malaysia's economy has become domestically oriented. The source of growth is largely domestic. The service sector, the largest, is almost entirely domestic.

International trade, as a percentage of the economy, has contracted. Before the 1997 Asian Financial Crisis, foreign trade was more than two times (200 per cent) the size of the economy. Now it is only 20 per cent higher.

This has caused demand for the ringgit through international trade to shrink and structurally weakened its value. In addition, the Malaysian capital market and stock market has also lost its international importance.

The KL Stock Exchange is no longer the main stock market in Asia as it used to be. The inflow of money is also shrinking. Among other things, the country is not producing new companies to attract investors.

In addition, foreign direct investment (FDI) has also decreased relatively. This have all caused the value of the ringgit to fall in the past two decades.

There is only one way to raise it structurally — develop competitive companies that can export products into foreign markets.



The Madani Economy places the hope of innovation in product development on small firms to penetrate the international market and increase the country's revenue.

The development of international trade will increase demand for ringgit and strengthen its value. That is in the Madani Economy. When we have competitive companies, the stock exchange will be lively and attract interest, besides the inflow of money to strengthen the ringgit.

Q: The government has made many announcements about FDI. However, the people cannot feel the benefits, especially the Malays, many of whom are still working as low-paid e-hailing drivers and petty traders. Realistically, will the common people be left behind further if Malaysia is upgraded to a high-income economy?

A: I have explained some of it above. Naturally, an investment, especially a large FDI, will take time to complete and then create job opportunities. What is important is that the preparation in terms of skills must be there to meet the demands of the industry.

Indeed, one of the main reasons investors invest in Malaysia, or anywhere else, is because of the availability of a skilled workforce. If there are not enough skilled workers, companies will not expand their business in that country.

The issue of many Malay teenagers not continuing their education or skills training after leaving school is worrying.

Long-term participation in the gig economy is not entrepreneurship, and being a social media influencer is not a sustainable career. It is true that the digitisation phenomenon like artificial intelligence (AI) will change the nature of work in a significant way, which will eliminate many jobs, but what is clear is that those who do not have specific skills or advanced education will be severely affected.

That is why the Madani Economy emphasises the social aspect to obtain economic results. Hopefully the attitude of constantly improving oneself and learning throughout life will spread among the people.

Q: The prime minister touched on developing micro, small and medium-scale enterprises (MSME). How can the government make MSME a regional champion?

A: The prime minister has emphasised once and for all about internationalising Malaysia's MSME. This emphasis is not the same as producing "regional champions" that are size-oriented.

The Madani Economy places the hope of innovation in product development on small firms, not large ones. So size is not the benchmark, but the ability to be competitive in penetrating foreign markets is.

The government has signed many Free-Trade Agreements (FTAs) involving various countries. Access to these markets is already there, but it is not seen as something that local MSME can benefit from.

This has to change. At the same time, closer bilateral economic cooperation needs to be established with neighbouring countries, which goes beyond cooperation at the Asean level.

The economy minister has announced the establishment of an economic cooperation zone with Singapore, for instance. An economic zone where there is free movement of goods and workers with all our neighbouring countries will open up this bilateral market.

Q: Madani Economy emphasises the increase of workers' wages so that it becomes a larger component in Malaysia's GDP. In simple terms, the government wants wages to rise more. What is the government's plan to realise this target?

A: Madani Economy aims to increase the contribution of wages to income. In addition to doing so through legislation, such as the minimum wage, a large part of this effort must be based on the productivity and competitiveness of the company.

This requires changes in company operations. For example, if you have a plantation with an area size of seven million hectares, the workers' salary will not change if it continues with its normal operations. Maybe it will change as far as the minimum wage is concerned.

But if there is an innovation, a new technology that requires fewer workers to collect revenue, then of course wages can become higher.

If we sell goods or services to the local market, the salary will not increase much. But if we compete to penetrate foreign markets that are willing to pay higher prices, our wages will rise.

That is why the Madani Economy puts internationalising MSME as the main agenda of transformation. Local companies that rely on the domestic market will only be able to pay limited wages.

Q: Madani Economy is not the first concept to desire an increase of women's participation in the workforce. What is the main reason for low women's participation compared with men, and how will it increase their number?

A: I have already answered the economic framework chapter. Regarding the female workforce participation rate, it is not decreasing. It is actually low and not increasing.

Although the number of girls in school is higher than boys, as well as the achievements of women in tertiary education are much higher than that of men, the participation of women in the labour market is still low in Malaysia.

To compound the problem, women leave the workforce when they have children and they do not return.

As a result, the country is missing out on the best utilisation of its human capital. This may be related to society's attitudes and norms. But the main reason is that the role

of women as mothers and their market value in child-bearing is not taken into account.

Company support for women employees with children is almost non-existent. The employers' attitude towards mothers who have just given birth and nursing a child is not supportive and even discriminatory.

Therefore, the Madani Economy suggests increasing women's participation in the workplace through legislation and providing incentives for employers to do so. If child-bearing has economic value to a country, then there should be laws and policies to prevent discrimination against working mothers.

Even working mothers need to be supported in their careers with childcare facilities.

Q: Is there hope for Madani Economy to become reality? What are the risks that can derail its framework?

A: All these institutional and economic reforms are not easy. It will be opposed by those who have vested interest in maintaining the status quo. There will also be those who oppose it for the sake of opposing.

Any policy decisions will incur a price — if there is a loss, there will be a gain. Some people benefit from a decision, some will lose. There is no policy decision that does not have benefits and losses. This understanding, as well as the ability to evaluate facts and data, is necessary to go through this reform process.

Without it, critics who promise all that is good will probably be the ones who succeed in derailing this effort.