PLAN FOR INCLUSIVE ECONOMIC DEVELOPMENT

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Earlier this year, Prime Minister Najib Razak and Sports Minister Khairy Jamaluddin kick-started a preparation for a new vision for the country named 'Transformasi Nasional 2050' (TN50). The proposed-vision would be a new roadmap for Malaysia after Vision 2020 and thus mapping out direction for the country in the next 30 years.

As the blueprint of TN50 is not yet ready, one factor that should the Malaysian government take into account is sustainable economic development by each states. Equal and fair economic development is essential for every state in Malaysia.

Selangor and Kuala Lumpur have been the strongholds for the Malaysian economy for the past ten years. In fact, historically most economic activities oriented in these two states. Financial hubs and most companies' headquarters as well as government administration offices are located in these two states.

In 2015, Selangor and Kuala Lumpur contributed about 22.6% and 15.1% to the national GDP respectively and which both represent almost 40% of the economy. In a simple word, for every RM1 national production, 40 cents come from Selangor and Kuala Lumpur.

In 2005, both states contributed about 20.8% and 12.3% respectively. This means after 10 years, the percentage contribution of both increased by 1.8% and 2.8% respectively. On the other hand, other states had increased by less than 1% and some even decreased its contribution points over the ten-year period.

There are many angles on assessing these patterns. One may see that Selangor and Kuala Lumpur improved their economic activities significantly while other states performed poorly. However the argument does not reflect the whole picture as the

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[1] The views and opinions expressed herein are those of the author and do not necessarily reflect the views of MIER.

pattern only measures percentage of contribution by each state to the national GDP. There are many ways to asses each state's economic performances such as annual economic growth, productivity growth and so forth.

Labour market is one of the indicators that can relate with the structural change in the economy. In 2015, skilled labour force of Malaysia is only 27%. Labour productivity is crucial to uplifting an economy. The rate is still low as compared to developed economies. For example, Singapore's skilled labour force is 54% in 2015.

Skilled Labor Force by States, 2015 (%)
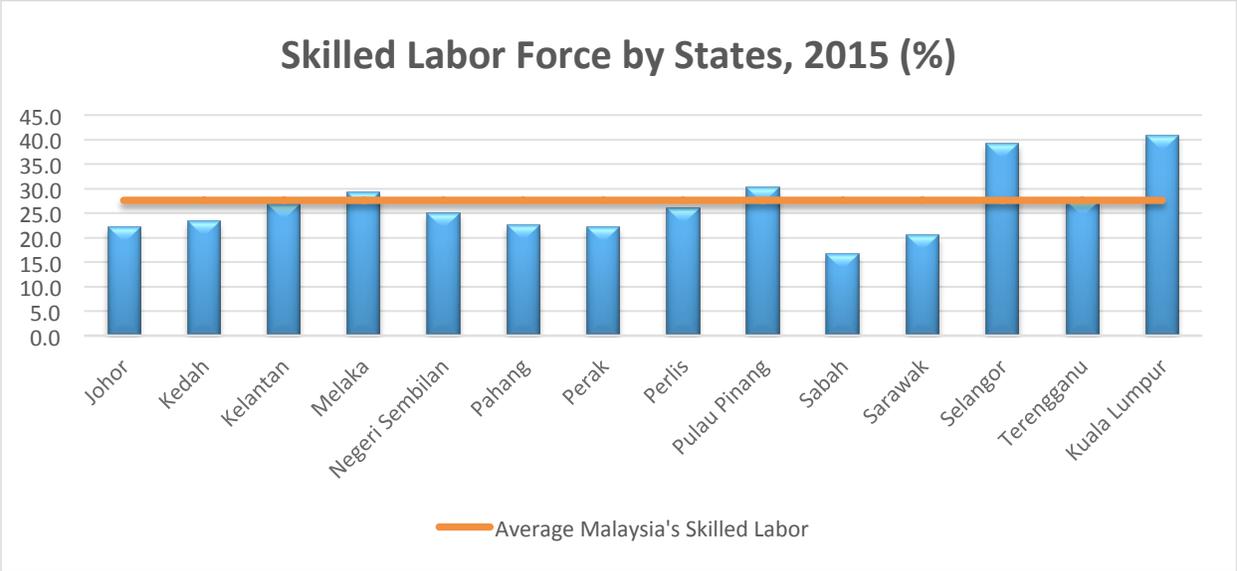
Source: Department of Statistics Malaysia

Out of fourteen states, only five states that have similar or higher proportion of skilled labour force than the national average in 2015. In line with the states' GDP contribution, Selangor and Kuala Lumpur have skilled labour force higher than the national average. This means, labour in these two states are more productive. Having high percentage of skilled labour force is one of key economic drivers in generating high added value to an economy.

Practically, main characteristics of skilled labour force is those with tertiary education. For those with primary and secondary education are normally engage with low-skilled work. Therefore, upgrading education system and ensuring optimum access to education for every Malaysian in rural areas in particular are recipe towards improving the Malaysian labour force productivity.

Apart from that, immigrant workers intake should be screened based on their education level. Malaysia should reduce dependency on low-skilled immigrant labour and attract more professionals from overseas into the country. By allowing more low-skilled immigrant labour in the country, economic activity in the country remains tepid and not advancing towards producing high value-added product.

In order to uplift productivity level, Malaysia has to transit from labour-based to capital-based economy. More advancement in production method in which relying on new technology and advanced machines. To cater for capital-intensive approach, skilled labour force is needed to operate the technology and machine productively.

Looking ahead, several mega public infrastructure projects in the pipeline are expected to have positive spill over effects on Malaysian economy. For example, Pan-Borneo Highway project will benefit Sarawak, Labuan and Sabah economies while East Coast Rail Line benefits eastern states of Peninsular Malaysia and High Speed Railway between Kuala Lumpur and Singapore would benefits states between the two cities. These projects may improve the Malaysian economy through greater economic activities.

Nevertheless, the GDP contributions by states provides a big picture on Malaysian economic landscape. It is important for policymakers at federal, state and also local levels to take note on this pattern. It is important for each state to include this changing pattern in developing short and long term economic plan. The plan must entail identification of economic strengths as well as weaknesses and most importantly come out with list of strategies in tackling the weaknesses and improving the strengths had by the state.

Consequently, more information and socioeconomic data on each state should be available on a timely manner and better frequencies for monitoring and planning purposes. For example, GDP data by each state is only available on annual basis and normally published after 9 months. As for GDP 2015, the GDP by states data was published on September 2016.

The availability of more macroeconomic indicators such as consumption, investment, unemployment and other economic indicators by quarterly basis may help policymakers in particular at state government level to make better decisions.

Efficient allocation of resources, improved labour market, equitable distribution of wealth and sustainable economic growth, among others shall be the objectives for the economic plan. In order for the plan to work, prudent execution and accountability measures should the priorities and practices. Above all, well-functioning and effective institution must be in place and free from unhealthy intervention.