

# THE NEW ECONOMIC MODEL: THE PERSPECTIVE OF UNIVERSITY STUDENTS

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## ABSTRACT

This research paper aims at understanding what Economic Degree undergraduates of a public university recognize the recent New Economic Model (NEM) as and perhaps interpret given certain issues posed to them. Throughout the three month period of written assignment and optional bi-weekly consultation, each of the 64 respondents were asked to review the NEM report and identify key areas they considered to be of high priority at present. They were allowed to share ideas but advised to provide preferably own reasons to support their thoughts. It is timely to conduct studies related to the NEM in general as the successful implementation of this broad-based economic policy depends on the continuous feedback from all stakeholders. Findings of the current project are expected to shed light on how the young generation perceive of the NEM as well as their prospective attitude towards its execution.

**Key words:** NEM, graduates, understanding, expectation, attitude.

## INTRODUCTION

The Wikipedia defines economics model as a theoretical construct that represents economic processes by a set of variables and a set of logical and/or quantitative relationships between them. The economic model is a simplified framework designed to illustrate complex processes, often but not always using mathematical techniques. Frequently, economic models use structural parameters. Structural parameters are underlying parameters in a model or class of models.<sup>1</sup> A model may have various parameters and those parameters may change to create various properties. Normally, economic models have two functions: first as a simplification of an abstraction from observed data, and second as a means of selection of data based on a paradigm of econometric study. Although almost all economic models involve some form of mathematical or quantitative analysis, qualitative models are occasionally used, as the case of economic policy model such as the NEM.

The New Economic Model was formulated by The National Economic Advisory Council (NEAC) as mandated and officially announced by the Honourable Prime Minister of Malaysia, Dato' Seri Najib Tun Razak on the 30<sup>th</sup> March 2010. Targeted to fulfill the third pillar of the Vision 2020, through the Economic Transformation Programme (ETP), the model aims at achieving three goals; high-income of US\$15,000 –US\$20,000 per capita, inclusiveness of all communities to benefit from the nation's wealth and sustainability. No doubt, similar issues were of interest in previous economic policies, the fact that NEM is designed to take a holistic approach in meeting them simultaneously appears to amplify both its beauty and relevance.

The full online report, organized into 7 distinct chapters, supported by up to date figures and tables enables every literate individual to view and easily notice the thrust of the initiative. As a matter of fact, one will be quick to observe that the chapters are uploaded separately by the authority in order to avoid the problem of prolonged retrieval of large files, especially during peak hours. Besides, the layout of the entire model reflects user-friendliness throughout indicating a welcome for those who wish to produce works based on a carefully selected existing socio-economic data. A summary the chapter titles follows:

Chapter 1	Why do we need NEM and what are its goals?
Chapter 2	Where are we?
Chapter 3	What's happening around us
Chapter 4	Which advantages do we have?
Chapter 5	Where do we want to be?
Chapter 6	How do we get there?
Chapter 7	The time to change is now – Malaysia deserves no less

Source: <http://www.neac.gov.my/node/235>

Despite the attractive headings, the 151 page report demands quality time coupled with a certain amount of curiosity in attempting to benefit from both the information and arrangements proposed by the model. Hence, assignment type activities fits the

Surprisingly, many fellow Malaysians are either completely unaware of the NEM or have heard about it over the media by chance, yet know very little about it. With almost 9 months since its launch, it is necessary for the academia to assume a leading role in creating awareness, highlight its importance to the society and eventually market and sell the underlying effectiveness of the grand plan to at least the

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<sup>1</sup> <http://en.wikipedia.org/wiki/>

younger generation. The NEM relies heavily on the cooperation every rakyat because the Strategic Reform Initiatives involves the entire community directly and otherwise.

## LITERATURE REVIEW

Malaysia's nature as a small but open economy, continues to expose it to external shocks such as increases commodity prices and other contagion effects of economic crisis. Consequently, the slowing down of our economic engine, declining foreign direct investments, bureaucratic procedures, low skill jobs, slow productivity growth, lack of innovation and the widening gap between the rich and poor has left us trapped in the middle income group nation. Our shortcomings continues to prevent us from moving forward, though previous ethnic based economic policies have succeeded in their own terms at the expense of other costs.

However, we are fortunate to be located in fastest growing region, and with the world-class infrastructure and manufacturing base, added with the biological diversity, Malaysia is poised to achieve the distinctive goals set out in the New Economic Model. What matters now is the approach to do. Rakyat being the ultimate beneficiaries are invited to actively participate in implementation of the various plans, known as the Strategic Initiative Reforms (SRIs). These efforts are partially being exercised though not officially declared. In a nutshell, the SRIs are geared to fire up the private sector, inspiring the workforce, removing market distortions, customer-focussed government, fostering equal opportunities and building on our comparative advantages.

Below is a quick peek into the eight SRIs proposed by the NEAC: For further details on the policy purposes and measures, please refer to the original document.

SR1: Re-Energising the Private Sector to Drive Growth
SR2: Developing a Quality Workforce and Reducing Dependency on Foreign Labour
SR3: Creating a Competitive Domestic Economy
SR4: Strengthening the Public Sector
SR5: Transparent and Market Friendly Affirmative Action
SR6: Building the Knowledge Base and Infrastructure
SR7: Enhancing the Sources of Growth
SR8: Ensuring Sustainability of Growth

According to Barrieu and Sinclair – Desgagne (2009), models are an ever-present input in decision and policy making, be they very sophisticated or not. However, they always are partial representations of reality, thus the same object may admit different models. In the case of NEM then, we can claim that while it is a purely qualitative economic model, it is more idealistic in nature. The inherent limitation of a model's ability to account for the complete truth explains some of the criticisms cast at the conceptual side of the NEM by frequent economic columnists and policy analysts including Greg Lopez and Khoo Kay Peng. Although there may be some truth to their concerns, I would prefer the younger generation, especially those at the higher learning institutions to be exposed to views presented by research fellows like Dr. Shankaran. In his contribution to the East Asia Forum in late June, the scholar discussed three important areas for the NEM in becoming a reality; education, entrepreneurial skills and institutional reform. His positive tone certainly reflects a high level of confidence attached to the feasibility of the model as compared to outlooks by others who in my opinion appear to focusing on the past rather than the prospects. While we should encourage the culture of diverse reading among university students, it is

critical that they are also guided towards maintaining an objective attitude when appraising views of others.

According to the crowd-sourcing project by the BFM, Malaysia's first FM radio station focused on business news and topics, Malaysians ought to offer timely constructive feedbacks that form the community's understanding, acceptance, suggestion or even distress relating to the NEM. In line with its vision to Build First-World Mindsets, the site labeled The NEM: The People's Version was launched immediately for open access to all. The idea was to get as much feedback on the proposal to be incorporated in the 10<sup>th</sup> Malaysian Plan.

Here are some of the highlights from the responses:

- In order to re-energize the private sector, the government is advised to play a smaller role by limiting itself to setting the right environment for commercial activities to flourish. It is expected to intervene only when market forces fail or create disparities in opportunities bringing about social imbalances. Apparently, there is still excessive government involvement in the economy, for example, SRI 7 – Establishing global presence through international acquisitions of companies in the same field and Clustering industries to leverage on integration, scale and connectivity. Our success with the Penang Electronic and Electrical Cluster clearly demonstrates the effectiveness of a small size government.
- To extend the retirement age of employees in the private sector and reduce the personal income tax rate so that highly-skilled talents may consider returning home. These initiatives can help reduce our dependency on foreign labour and develop national quality workforce.
- To extend the creation of a competitive domestic economy beyond small-medium industries. Suggest to breakdown the monopolistic behavior of power producing and telecommunication firms and distribute business control to benefit the consumers.
- In strengthening the public sector, the ministries should replace the current use of cash basis to accrual basis of accounting and prepare accounts based on actual receipt/ payments as being practiced by the G8 and OECD nations for enhanced transparency. Besides that, each department must have clear key performance indicators and committed outputs.
- The provision of pro-family personal tax rebates as part of a market friendly affirmative action.

## METHODOLOGY

Data was collected from sixty four (64) undergraduate students in their final year of Economics Degree Programme in the form of a written assignment. They were allowed 10 weeks to basically retrieve and review the New Economic Plan Report, laid out in 207 pages long concisely.

As the primary purpose of the assignment was to expose them to the exclusive economic plan and its targeted goals, a more flexible type of approach was applied rather than the usual strict and instructive coursework offer style. However a standard guideline was made available, in order to serve as a marking scheme for the students to work with. Though the requirement of the assignment appeared straight forward and to some respondents "simple", the fact that 25% of the

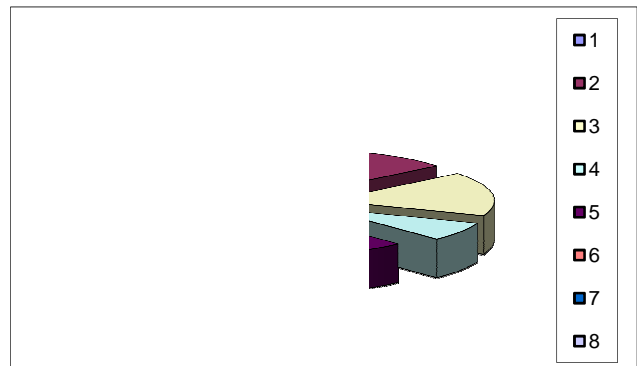
actual grade dependent on their performance implied its significance, thus the demand in time, effort and most certainly critical thinking abilities.

They students were also encouraged to seek clarification by meeting with the facilitator as early as possible for any misconceptions not treated at preliminary stage may affect their comments in the later parts involving analysis and recommendations. Despite the high probability of pirated products of labour, the respondents were allowed to share their individual thoughts in preparing their responses. Perceptions often comes about from various means of communication, thus to restrict their activities with the hope to derive at a more honest or perhaps less influence by peers to me is completely unnecessary. Having the freedom to compare and even argue constructively about the NEM can produce positive results in their findings.

Approximately 5 respondents liaised via e-mail to confirm their tracks, whereas another 12 made appointments to discuss the assignments in small groups of 2-3 students. All submitted on time and it took a good 10 hours to evaluate them in detail.

### FINDINGS

SRI	Suggest	%
1	2	1.79
2	14	12.50
3	19	16.67
4	8	7.14
5	32	27.68
6	7	6.25
7	9	8.04
8	23	20.54



Response rate = 89.05%

10.95% is accounted by those who either chose only one or listed all the eight strategic reform initiatives as equally relevant.

### ANALYSIS

The majority stated that maintaining a transparent and market friendly affirmative action promotes fair employment opportunities. The subjects defended their decision by providing examples such as provision of educational loans and scholarships based on principles of need and merit as targeted by the Model. A handful suggested that employment offers should follow some flexible rules based on academic qualification as well and not working experience or seniority alone. Such comments were both familiar and understandable, given their positions as final year students fearing the potential setbacks in securing jobs soon. Upon further probing, a few respondents shared their concern for a more open type hiring systems, preferably under the surveillance of government authorities. Clearly, there are mixed perceptions involving the process and end-results of employment prospects in the country.

The second highest strategy was to ensure the sustainability of growth, whereby the subjects discussed the importance of natural resources to the well-being of the nation in the long-run. They clearly addressed the issue of over-use and abuse of implicit and explicit sources of growth locally. The focus was the preservation of the natural environment which is evidently the key factor in promoting tourism. Most of them agreed that it was our collective responsibility to value and safeguard the natural resources and admitted that the government has been discharging its duties towards awareness through on-going support programs.

Approximately one sixth of the students agreed that creating a competitive domestic economy should be given the highest priority because the simultaneous removal of prevailing market distortions in the form of subsidies and price control and the push towards strengthening the domestic business practices to be at par with international standards will have a quick and lasting favourable implications to the local small medium industries. They also described the intention to set up an Equal Opportunity Commission as perfect move towards restoring confidence among Malaysian entrepreneurs lacking satisfaction currently.

Apart from the above, a sizeable number highlighted that re-skilling in house workforce can gradually reduce dependency of foreign workers, both manual and intellectual. Many are of the opinion that revising the present wage levels, compensation packages and perhaps liberalizing professional services will expedite the campaign for the returns of thousands of highly talented Malaysians. Such deep sense of patriotism to contribute to national growth is something we should take pride and value. In short, the younger generation has full faith in the ability to develop a quality workforce to accomplish the goals of the new economic plan.

Relatively, the majority showed little interest to claiming that the other four strategic reform initiatives were as important to the targets of high income, inclusiveness and sustainability. Though the idea to rejuvenate the private sector to drive growth and reinforce the public sector are laudable, these were not perceived as the best ways to actually realize the three objectives to collectively enhance the quality of life of the rakyat. While only six and quarter percent considered the building of knowledge and infrastructure as key to the success of NEM, just about nine respondents suggested the power of enhancing the sources of growth to do the above. Perhaps, the perception to sustain growth is a much pressing concern as compared to advancing the sources of growth which normally includes the conventional factors of production and technology.

## CONCLUSION

Economic modeling is at the heart of economic theory. Modeling provides a logical, abstract template to help organize the analyst's thoughts. The model helps the economist logically isolate and sort out complicated chains of cause and effect and influence between the numerous interacting elements in an economy. Through the use of a model, the economist can at least logically, attempting to evaluate the effect of alternative policy options. Nevertheless, the New Economic Model is rather a comprehensive model architecture in a qualitative manner to meet the normative goals of the diverse needs and expectations of the assorted rakyat. Therefore, the relationship between the x and y factors may not be as clear or direct as in the case of empirical economic models. Nonetheless, it is interesting and challenging

to an extent to actually appraise the model from the perspectives of the different groups of stakeholders, especially the youth.

It is also noteworthy to admit that one of the problems facing the development of economic understanding—in our view, is to articulate the concept of rationality with the reality of subjective perceptions; or, to put it differently, it is to understand what it means to be rational for an individual who is ignorant of many things that matter for its future. According to Garelo (1997) if one takes seriously into consideration problems related to perception, the link between decision theory and the analysis of interactions becomes a very complex one. Economists have dealt with this complexity in many different ways, ranging from ignoring the difficulty altogether to attempting to modify the prevailing paradigm.

Without going too much into the details of the power of perception, we need to identify with this concept to better understand the role it plays in realizing the aspirations of the NEM. All of us will agree that an information is a piece of knowledge, but it is, in our opinion, more useful—and exact, as far as economic theory is concerned—to say that an information is not just any piece of knowledge ; it is a piece of knowledge which is judged to be relevant to the decision. Whereas perception is refers to the process by which organisms interpret and organize sensation to produce a meaningful experience of the world. Although it better describes one's ultimate experience of the world and typically involves further processing of sensory input, in practice, sensation and perception are virtually impossible to separate, because they are part of one continuous process. The relation between information and perception is therefore that a piece of the present stock of knowledge qualifies as « information » only if it has been selected during the perception process. In short how the samples think and feel towards the NEM as a set of long-term economic policies has great impacts on the kind and degree of commitment one can hope for.

Using a new economic model to propel Malaysia out of its middle-income trap is a wise move. But let's not forget the importance of cultivating the right mind-set and value system. As the saying goes, “you can't change the wind; you can however adjust your sails”. The same can be said for economic development policies and strategies: economic winds of change necessitate a rethinking of policies and strategies. In the words of a fellow researcher at the Malaysian Institute Economic Research, whichever way Malaysia's economic model evolves, our success at making the quantum leap from middle-income to high-income may ultimately depend on the Malaysian mind-set and value system. In the Foreword to the Eighth Malaysia Plan document, the then Prime Minister of Malaysia noted that “we will have to cultivate the right mind-set and value system in order to develop a culture of high productivity and excellence and ensure that our success is sustainable.” After all look at Japan, their factory workers were found to be lazy and unspecialized in 1901. And today, the Japanese continue to awe the world with the level of technical expertise and continuous economic development.

Lastly, a small scale study as this requires continuous follow ups and expansion to other clusters to bear more meaningful results. This is merely a mini attempt to highlight both the relevance of NEM and perceptions amongst the economic undergraduates. Despite the limitations of time and scope, I am of the opinion that the responses were genuine, compact and justified with good ideas. Those fascinated by the NEM should pursue researches to tackle the various economic schemes introduced to explore and measure its effectiveness in time to come. As trained economists, we have the responsibility to value and critique the government initiatives wisely.

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