1 ECONOMIC MANAGEMENT AND PROSPECTS

- Overview
- Performance Review – 2017
  - Information Box 1.1 - National Transformation 2050
- Updates on the 2017 Budget
  - Information Box 1.2 - MyBeautiful New Home
  - Information Box 1.3 - Digital Free Trade Zone
  - Feature Article 1.1 - Enhancing Mobility through Rail Connectivity
  - Feature Article 1.2 - The Sharing Economy: Driving Economic and Social Empowerment through Digital Platforms
  - Information Box 1.4 - Coding@Schools
- Economic Management – 2018
- Strategic Initiatives – 2018 Budget
- Prospects for 2018

1 ECONOMIC MANAGEMENT AND PROSPECTS

Overview

Rising above expectations, Malaysia leveraged its strong economic fundamentals to record a robust growth in the first six months of 2017. Despite increasing protectionist threats, policy uncertainties in developed countries and geopolitical tensions, the domestic economy expanded 5.7% during the period. The expansion is a testament to the Government's concerted efforts in implementing various reforms under the National Transformation Policy (NTP). The NTP, comprising several high-impact and innovative programmes, was introduced in 2009 to uplift the economy from the middle-income trap towards a high-income and advanced nation by 2020.

Towards uniting all Malaysians, the 1Malaysia, People First, Performance Now principle is the overarching paradigm that permeates across all development plans and programmes, benefitting all segments of the society. Through the Government Transformation Programme (GTP), public service delivery was strengthened to facilitate businesses and enhance the wellbeing of the rakyat. Meanwhile, the Economic Transformation Programme (ETP) enabled the private sector to undertake several high-impact projects which in turn, increased private investment in the economy.

Amid threats of global terrorism, the Political Transformation Programme (PTP) ensued stability in the country by balancing the nation's security needs and individual freedom. Furthermore, to leverage digital technology, an essential enabler for the country's transformation, the Digital Transformation Programme (DTP) continues to create an ecosystem which promotes the pervasive use of digital technology in all aspects of the economy. Meanwhile, the Community Transformation Programme (CTP) reached out to the rakyat and enabled all communities to benefit fully from the urban and rural transformation centres. At the same time, the Fiscal Transformation Programme (FTP), further strengthened Government finances and supported macroeconomic stability.

To meet the current and future needs of the industry, the Vocational and Technical Transformation Programme (VTTP) was introduced to revamp the technical and vocational education and training programmes. At the same time, the National Youth Transformation Programme (NYTP) provides an environment for the youth to emerge as well-balanced citizens. Finally, the Social Transformation Programme (STP) continues to strengthen core values, work culture and attitudes among Malaysians. In addition, the establishment of the Cultural Economy Development Agency (Cendana) on 6 September 2017 will further promote a sustainable, inclusive, vibrant and ambitious cultural economy.

In tandem with the NTP, the 2017 Budget introduced various programmes to enhance economic growth. Furthermore, efforts were intensified to strengthen human capital, improve the education system and create ample opportunities for the rakyat to increase their income. At the same time, several initiatives to enhance public service delivery were implemented to ensure the best outcomes for the rakyat. Collectively, these efforts have strengthened the nation's economic fundamentals. Given these developments, the economy is expected to grow between 5.2% — 5.7% in 2017. With more pro-growth and rakyat-centric programmes and projects in the 2018 Budget, the economy will remain on its growth trajectory, expanding between 5% — 5.5% in 2018. Moving forward, the National Transformation 2050 (TN50), introduced in the 2017 Budget, aspires to elevate Malaysia as among the top 20 nations, ranked by economic and social development, in 2050.

Performance Review – 2017

The Global Economy

The global economy is expected to expand 3.6% in 2017 (2016: 3.2%). The expansion is attributed to the improved growth of 2.2% (2016: 1.7%) in advanced economies and 4.6% (2016: 4.3%) in the emerging market and developing economies. Among the advanced countries, the US and the euro area are projected to record higher growth driven by steady expansion in investment and consumption activities. Japan is anticipated to record a stronger-than-expected growth contributed by higher investment and robust exports. Meanwhile, the UK's economy is forecast to sustain growth amid slower consumer spending following post-Brexit uncertainties.

Growth in the emerging market and developing economies is expected to expand supported by high global demand and investment. China is projected to record a stable growth, supported by effective macro-policy mix, strengthening external demand and progress in domestic reforms. In addition, India's growth is expected to remain robust driven by strong private consumption and services sector.

Likewise, most major ASEAN economies, namely Indonesia, Malaysia, the Philippines, Thailand and Viet Nam, are expected to register steady growth contributed by strong domestic and external demand.

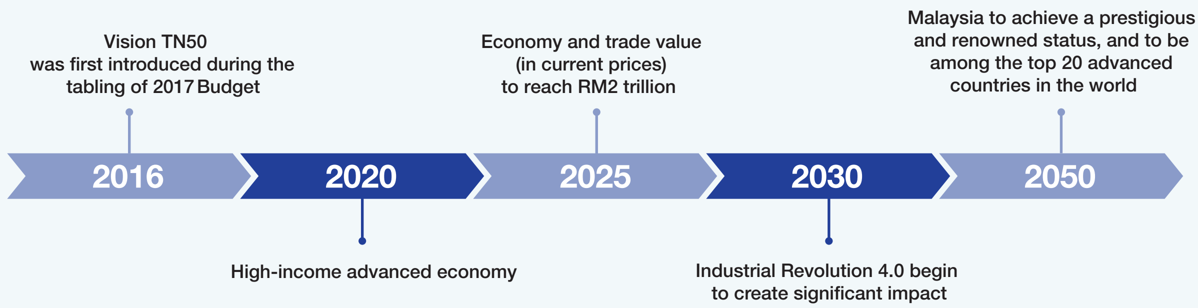
Information Box 1.1

National Transformation 2050

Introduction

The Malaysian economy has made significant strides since independence as reflected by its remarkable growth, driven by a series of structural reforms that began in the 1970s. The launching of the New Economic Policy (NEP) in 1971 was a turning point in the history of the Malaysian economy. The overarching goal of NEP was national unity achieved through poverty eradication and societal restructuring. In 1991, the country embarked on Vision 2020 to continue its journey to reach the status of an advanced and high-income nation by 2020, moulded according to its own features. To accelerate the progress, the Government introduced the National Transformation Policy in 2010.

Figure 1.1.1. Malaysia Towards National Transformation 2050



Source: *Falsafah Asas TN50.*

What is National Transformation 2050?

In 2016, the Government announced the National Transformation 2050 (TN50) to propel the country for the next 30-years. TN50 serves as a national discourse geared towards charting the nation's direction via a new canvas. Spanning three decades, TN50 will transform the country to be a calibre state with par excellent mindset. The overriding goal of the TN50 is for Malaysia to become the top 20 countries in economic development, social advancement and innovation by 2050. TN50 is formulated by the people for the people. It adopts a bottom-up approach to ensure that the TN50 is inclusive, comprehensive and incorporates aspirations from all segments of the society. In this regard, the Government started engaging the youths since early 2017 before extending it to other levels of the community.

Why National Transformation 2050?

TN50 will prepare the nation for the next 30 years to withstand the challenges ahead to remain relevant and competitive in the fast-evolving world. These include geopolitical shift; rising era of digitalisation and breakthrough technologies; rapid urbanisation and climate change; and ageing population. TN50 is formulated through new formats, involving various engagements ranging from town hall dialogues to online surveys.[1] To date, more than one million youths provided about 50,000 aspirations.

[1] Economic Planning Unit (2017).

Geopolitical Shift

The E7[2] economies are projected to drive the world economy between 2014 and 2050, expanding at an average rate of 3.8% per annum. Meanwhile, the G7[3] group is expected to grow at a more moderate pace of 2.1% per annum over the same period. Notably, China and India are projected to be the largest economies in the world by 2050.[4] Towards this end, TN50 will focus on leveraging our strengths and comparative advantage amid the changing global order. Other measures include strategic investment and trade activities to benefit from the shift in global economic power.

Digitalisation and Breakthrough Technologies

The rise of digitalisation stemming from Industrial Revolution 4.0 is supplanting many jobs in sectors that were previously labour-intensive. Among the skills required globally by 2020 are complex problem solving; critical thinking; creativity; and people management.[5] Lack of these skills raises the concerns as most of the employment in the country has been concentrating on the low- and semi-skilled jobs. Therefore, TN50 will include policies to attract high-end investments to generate modern occupation and ensure employability of workers through upskilling, reskilling and life-long learning. TN50 will also inculcate entrepreneurship and innovation among the younger generation.

Rapid Urbanisation

Malaysia is one of the most rapidly urbanising countries in Asia. In tandem with the country's vast development, the proportion of urban population increased to 74.8% in 2015 (2010: 71%).[6] With this trend, 88% of Malaysia's population will live in cities by 2050.[7] The rapid urbanisation will cause congestion and environmental degradation. Congestion is one of the significant obstacles to livability as commuting to work is the most unpleasant routine activity that humans have to endure,[8] while climate change may increase the severity and frequency of extreme weathers such as floods and droughts. As such, TN50 will emphasise on providing sufficient housing, ensuring green and sustainable development, and enhancing connectivity between individual and their jobs which includes efficient public transportation, work from home and flexible working hours. In this regard, smart cities[9] will be created to catalyse economic growth by generating productivity gains through agglomeration economies.[10]

Ageing Population

Malaysia's population is projected to rise to 41.5 million by 2040, up from 28.6 million in 2010. However, the annual growth rate is expected to decline to 0.8% in 2040 from 1.8% in 2010.[11] With this growth rate, Malaysia is expected to become an ageing nation in 2020 when the percentage of the population aged 65 and above, reaches 7.2%.[12] The share is expected to increase further to 15% by 2030.[13] The rising ageing population will result in strained pension schemes and burgeoning healthcare costs. Therefore, TN50 will take steps to enabling the senior citizen to self-sustain their livelihood, and ensuring regulatory and policy that are apt to an ageing society.

Conclusion

TN50 will prepare Malaysia for the next 30 years. TN50 uses a bottom-up approach, especially listening to young adults and formulating quantified goals and milestones. It propels the nation to be among the top 20 countries in the world by 2050 in economic development; citizen wellbeing; creativity and innovation; and advancement in science and technology.

---

[2] Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
[3] Canada, France, Germany, Italy, Japan, the UK and US.
[4] The World in 2050 - The Long View: How Will the Global Economic Order Change? (2017). PricewaterhouseCoopers, United Kingdom. Retrieved September 15, 2017 from https://www.pwc.com/gx/en/issues/economy/the-world-in-2050.html.
[5] The Future of Jobs: Employment, Skills and Workforce Strategy for the Fourth Industrial Revolution (2016). World Economic Forum.
[6] Social Statistics Bulletin Malaysia (2016). Department of Statistics, Malaysia.
[7] World Urbanisation Prospects (2009). United Nations.
[8] Kahneman and Kruger (2006). Developments in the Measurements of Subjective Wellbeing. *Journal of Economic Perspective*, 20(1).
[9] A city is smart when investments in human and social capital; traditional infrastructure; and disruptive technologies fuel sustainable economic growth and a high quality of life, with a wise management of natural resources, through participatory governance. (Deloitte, 2015).
[10] Benefits derived when firms and people locate near one another together in cities and industrial clusters.
[11] Social Statistics Bulletin Malaysia (2016). Department of Statistics, Malaysia.
[12] Population Projection (Revised) Malaysia, 2010 – 2040 (2016). Department of Statistics, Malaysia.
[13] Dato' Sri Mohd. Najib Tun Abdul Razak (2017). *Falsafah Asas TN50.* Foundation of Research on Transformation.

Domestic Economy

The Malaysian economy recorded a robust growth of 5.7% in the first half of 2017 supported by firm domestic demand and steady external sector. Private investment increased 10% (January – June 2016: 3.9%), primarily driven by new and ongoing projects. Meanwhile, private consumption grew 6.9% during the period (January – June 2016: 5.7%) supported by improvement in labour market conditions, higher income and strong export earnings. The current account recorded an increase in surplus amounting to RM14.9 billion or 2.3% of Gross National Income (GNI) (January – June 2016: RM9.3 billion; 1.6%), contributed mainly by higher goods surplus despite deficits in the services and income accounts.

From the demand side, private sector expenditure continued to support economic growth in the first half of 2017 through sustained private consumption and investment. Despite concerns about rising cost of living and weak consumer sentiments, steady increase in disposable income, and stable labour market supported household spending. Various financial assistance provided to the rakyat, especially to the low- and middle-income households reinforced the increase in disposable income. Meanwhile, private investment has also supported the robust performance of private expenditure. Private investment growth was stronger as demand for capital expenditure was higher due to steady inflows of foreign direct investment (FDI), and new and ongoing projects, particularly in the services and manufacturing sectors.

The public sector continued to provide support to economic growth while remaining committed to fiscal consolidation efforts through maximising revenue and optimising expenditure. In the first half of 2017, public consumption grew 5.3% (January – June 2016: 4.1%) on the back of higher emoluments, and supply and services. Public investment contracted 0.9% (January – June 2016: 1.3%), mainly due to lower expenditure by public corporations.

From the supply side, the services and manufacturing sectors contributed the most to economic expansion. The services sector recorded an increase of 6.1% during the first half of 2017 (January – June 2016: 5.4%) driven by improvement in wholesale and retail trade; food & beverages and accommodation; information and communication; and finance and insurance subsectors. Meanwhile, the manufacturing sector expanded further by 5.8% (January – June 2016: 4.4%), attributed to higher demand for a wide range of products from both export- and domestic-industries. The construction sector grew 7.4% (January – June 2016: 8.5%), contributed by civil engineering. Meanwhile, the mining sector increased moderately by 0.9% (January – June 2016: 0.4%) supported by the higher production of natural gas following stronger demand from domestic petrochemical industry and exports. The agriculture sector rebounded sharply by 7.1% during the period (January – June 2016: -5.9%) following higher output of oil palm and rubber subsector coupled with higher prices for these commodities.

Fiscal Operations

Under the FTP, the Government has implemented a number of initiatives which include enhancing tax administration and compliance; expenditure rationalisation and optimisation; improving fiscal policy institution; and strengthening budget management and control. Consequently, the Government has gradually reduced its fiscal deficit as a percentage of GDP from 6.7% in 2009 to 3.1% in 2016. With the fiscal policy ensuring a sound macroeconomic environment, the Malaysian economy recorded sterling growth in the first half of 2017. The Government will continue to leverage its fiscal policy instruments through revenue and expenditure measures to create fiscal space and achieve its macroeconomic targets for the year. In line with expected higher tax revenue from both companies and individuals, the total revenue collection for 2017 is expected to record a growth of 6.1%. At the same time, non-tax revenue collection is also anticipated to grow partly contributed by divestment activity following the Government's effort to gradually reduce its direct involvement in the market. Regarding expenditure, the Government remains committed to carrying out optimisation measures in enhancing spending efficiency and prioritising rakyat-centric and high impact programmes and projects. Expenditure also focuses on programmes that maximise outcome, reduce leakages and enhance value for money with continued emphasis on providing essential services, particularly health, education and targeted social assistance for the wellbeing of the rakyat. The formulation of Medium-Term Fiscal Framework (MTFF) acts as the principal planning mechanism in driving fiscal consolidation efforts to strengthen the Government's finance. For 2017, the deficit level is targeted at 3.0% of GDP and will be gradually reduced towards achieving a near-balanced budget in 2020.

Monetary and Financial Developments

Despite uncertainties in the external environment, the monetary policy stance remains accommodative while maintaining price stability. The Overnight Policy Rate (OPR) was kept unchanged in the first seven months of 2017 although several major economies shifted their monetary stances to withstand these uncertainties. At the same time, the ringgit appreciated supported by positive domestic economic developments and various measures taken by the Financial Markets Committee (FMC), particularly on enhancing liquidity in the bond market and allowing for greater hedging flexibility in the onshore market. The banking system also remained resilient and was well-supported by sound institutions and sustained confidence in the financial system. Profitability of the banking system remained sound supported by efficiency gains from the adoption of new technologies and optimisation of workforce. Meanwhile, the launch of the world's first green sukuk marks another significant milestone in product innovation that strengthens Malaysia's position as a leading Islamic finance marketplace and its credibility as a centre for sustainable financing. In addition, the growth of digital finance is beginning to gain traction and is changing the landscape of the global financial market whereby the introduction of new business models and solutions have enabled a greater efficiency and better risk management. To modernise and increase the efficiency of the financial sector, the Government has provided a supportive regulatory environment to further promote financial technology (Fintech). At the same time, to encourage financial inclusion, the Government has also implemented several initiatives and awareness programmes.

Updates on the 2017 Budget

In line with the theme Ensuring Unity and Economic Growth, Inclusive Prudent Spending, Wellbeing of the Rakyat, the 2017 Budget unveiled several rakyat-centric programmes. Several measures were introduced to sustain economic growth, strengthen human capital, improve the rakyat's income and welfare, and enhance inclusiveness. Accordingly, the Budget allocated RM260.8 billion for 2017 with RM214.8 billion for operating expenditure (OE) and RM46 billion for development expenditure (DE). The allocation was 3.4% higher than the recalibrated 2016 Budget.

Rakyat-Centric Programmes

The Government remains committed to implementing rakyat-centric programmes to ensure all segments of the society benefit from national socioeconomic agenda. To enable the rakyat to own affordable houses, the Government introduced various programmes such as MyBeautiful New Home (MyBNHome), People's Housing Programme (PPR), People Friendly Home (RMR) and 1Malaysia People's Housing (PR1MA). In addition, the Government continues to refurbish old homes of Orang Asli community and the rakyat in remote villages. As at end-August 2017, a total of 83,809 houses were completed under MyBNHome and PPR, while 27,660 house owners received a subsidy of up to RM20,000 for the building of each house under RMR. Meanwhile, under PR1MA, the Government has allocated 53.1 acres of vacant lands in Perak and Sarawak to provide affordable houses to middle-income households. In the same period, a total of RM65 million was expended to refurbish 4,436 dwellings benefitting 22,180 recipients in Orang Asli settlements and remote villages. At the same time, the Government continues to improve living conditions in urban and suburban areas. A sum of RM206 million was utilised to repair and upgrade basic facilities in 252 flats through the 1Malaysia Maintenance Fund and Housing Maintenance Programme benefitting 228,494 dwellers. To enhance connectivity, the Government continues to expand the infrastructure across the country. As at end-August 2017, the maintenance of state roads and the installation of street lights in 145 districts nationwide, including Sabah and Sarawak involved an expenditure of about RM2.9 billion.

Sustaining Economic Growth

Various high-impact programmes have been introduced to sustain economic growth which includes increasing food production, promoting balance development, accelerating export, enhancing tourism, and leveraging digital economy. Other programmes include energising start-ups and small and medium enterprises (SMEs) and improving public transport and connectivity. In terms of food production, the focus is on ensuring ample food supply for the rakyat. As at end-August 2017, a total of 203,169 farmers have benefited from RM551.5 million subsidies and other incentives for paddy cultivation, integrated aquaculture zones and cage fish farms. In addition, to encourage farmers to market their produce directly to consumers, 16 MyFarm Outlets and 73 Agrobazaar Rakyat 1Malaysia are currently operating nationwide.

The Government continues to promote balanced development through five regional economic corridors. As at end-August 2017, a total of RM1.2 billion was disbursed for various programmes including Sedenak Iskandar Data Hub in Iskandar Malaysia, Chuping Valley Industrial Area in Northern Corridor Economic Region and Kuantan Port expansion in Eastern Corridor Economic Region. Other programmes include Palm Oil Industrial Cluster in Sabah Development Corridor and Samalaju Industrial Park in Sarawak Corridor Renewable Energy.

In efforts to attract investment and encourage SMEs to export goods and services, several promotional activities including trade and investment missions

Information Box 1.2

MyBeautiful New Home

Introduction

Over the years, the demand for affordable houses remains strong. In this regard, the Government has introduced MyBeautiful New Home (MyBNHome) in the 2017 Budget. This initiative aims to assist the B40[1] to own affordable and comfortable homes.

Special Features of MyBNHome

The programme utilises the National Blue Ocean Strategy (NBOS) principles which emphasise high impact, low cost and rapid execution. The construction of houses using Industrialised Building System (IBS) technology is its main feature. The homes are built by students from polytechnics and community colleges under the supervision of appointed contractors. The approach enables students to gain knowledge through hands-on experience in the construction of houses using IBS.[2] In tandem with the Government's inclusiveness policy, the Orang Asli community will also benefit from the MyBNHome programme.

State governments will provide the land for the construction of MyBNHome. The land status must be under the residential category and do not require substantial infrastructure investments. The state government or the Department of Orang Asli Development will identify sites that are suitable for the programme. Cooperation among state governments, district and land offices, and local authorities is essential to ensure that there are no encumbrances on the proposed land for the project. Final approval for the site selection is subject to mutual consent of the Federal Government and state governments. The state governments are responsible for identifying project contractors as well as buyers.

The construction of houses will be monitored jointly by the Federal and state governments. State governments through relevant districts and land offices will chair the Technical Committee Meeting on a regular basis to track the progress of the project. Both pre-NBOS and NBOS Summits regularly monitor the latest development of the programme.

The price of each house, covering an area of 750 square feet with three rooms and two bathrooms, is currently capped at RM40,000 in Peninsular Malaysia, and RM60,000 in Sabah and Sarawak. A total of RM20,000 will be borne by the Government for houses in Peninsular Malaysia while RM30,000 in Sabah and Sarawak. Bank Simpanan Nasional will provide loans, tailored according to buyers disposable income for the remaining amounts. Meanwhile, for Orang Asli, the houses will be fully-funded by the Government. In addition, infrastructure costs such as road and sewerage facilities will be financed by the Government. A ten-year moratorium applies during which houses cannot be rented or sold.

Current Progress

On 18 January 2017, the Government launched the 50 units of MyBNHome in Manjung, Perak and was completed within three months. The project adopted IBS technology with HyperBIM method featuring aluminium formwork slurry concrete which has reduced the construction period. Projects in Melaka, Terengganu and Pahang are under construction while in Sabah, Kedah, Sarawak, Johor, Penang and Kelantan as well as at Orang Asli villages in Perak and Pahang are in various stages of implementation.

Conclusion

MyBNHome programme not only provides B40 with the opportunity to own houses at affordable prices but also adopts the IBS that saves time and reduces dependency on foreign labour. Also, this programme also provides opportunities for students to acquire practical experience in the construction of houses using IBS. MyBNHome is a testament to the Government's commitment and involvement in ensuring that rakyat has access to own affordable homes.

---

[1] Refers to households with monthly average income of less than RM3,860.

[2] Among the experience that students acquire, includes site preparation; structure construction; installation of electrical wiring, water and sanitary pipes, sanitary fittings, roofs and ceilings, doors and windows, and tiles; and painting works.

were carried out by the Malaysian Investment Development Authority and Malaysia External Trade Development Corporation (MATRADE). At the same time, MATRADE and SME Corporation Malaysia (SME Corp.) provided soft loans and grants to corporations, including SMEs to expand and venture into export markets. As at end-August 2017, about RM48.3 million was expended on these initiatives.

The Government continues to implement various ecotourism projects to accelerate the growth of tourism industry. The projects include the upgrading of infrastructure in Burlington Taman Kinabalu and Tabin's Wildlife Reserve in Sabah and Sungai Cherating in Pahang. Furthermore, efforts were intensified to promote Malaysia as the preferred tourist destination through Visit ASEAN@50 campaign, and the hosting of the 29th South East Asian Games and the 9th ASEAN Para Games in 2017. To attract 32 million tourist arrivals this year, the e-Visa was expanded to include more countries such as Bhutan, Sri Lanka, Serbia and Montenegro.

In line with the Government's aspiration to nurture talent and attract investment to develop digital industry, Malaysia Digital Economy Corporation (MDEC) implemented several programmes, including Digital Maker Movement (DMM) and Digital Content programmes. DMM aims to develop skills in coding, application development, 3D printing, robotics, embedded programming and data analytics. Meanwhile, Digital Content aspires to develop Malaysia as a regional hub for digital content that includes digital games, animation and new media. As at end-August 2017, a sum of RM108.9 million was expended on these initiatives. In addition, Malaysia has announced the world's first Digital Free Trade Zone (DFTZ) outside China on 22 March 2017 to facilitate cross-border trade via eCommerce platform.

Information Box 1.3

Digital Free Trade Zone

Introduction

The Digital Free Trade Zone (DFTZ) was announced on 22 March 2017 in Kuala Lumpur. It is the first digital free trade zone in the world outside China. DFTZ is an initiative under the National eCommerce Strategic Roadmap, which aims to double eCommerce growth from 10.8% to 20.8% and increase contribution to GDP by RM211 billion by 2020.

Benefits of DFTZ

DFTZ will facilitate SMEs to export their products globally and provide market players with a holistic eCommerce trading experience. The experience is made possible, through a strategic location equipped with world-class facilities; an integrated digital eServices platform to access leading global service providers; and an improved regulatory process leading to increased efficiency in customs and cargo clearance. DFTZ will also enable global market players to source from Malaysian producers or sellers, making the country a regional fulfilment hub for global brands. In this regard, the Government aims to attract 1,500 SMEs to participate in the DFTZ platform by the end of 2017 and another 8,000 in 2018. In addition, DFTZ is expected to increase SMEs share to GDP by more than 60%, create 60,000 jobs and double SMEs exports to RM162.9 billion by 2025.

The Composition of DFTZ

DFTZ comprises three components. The components include physical and virtual zones. The physical zone consists of eFulfilment and Satellite Services Hubs while the eServices Platform serves as the virtual zone.

eFulfilment Hub

The eFulfilment Hub will assist SMEs in exporting their goods efficiently with the help of leading fulfilment service providers. The hub located at KLIA Aeropolis serves as a strategic facility for customs clearance, warehousing and logistics. Equipped with the latest technology, the hub will provide sorting, shelving and pick-pack facilities thus speeding up exports and imports processes. The hub is expected to be operational in the fourth quarter of 2017. Moreover, the selection of KLIA Aeropolis as the eFulfilment Hub will catalyse Malaysia as the preferred logistics gateway to Asia and a global player in the logistics sector.

Satellite Services Hub

Kuala Lumpur Internet City will house the Satellite Services Hub. It will operate as a digital hub for global and local Internet-related companies, facilitating end-to-end support, networking and knowledge-sharing for the eCommerce industry. The hub will also comprise facilities such as office and co-working spaces, offline-to-online showrooms, training centres and open space areas for community activities.

eServices Platform

The eServices Platform will complement both the eFulfilment and the Satellite Services Hubs initiatives by connecting innovative business service providers with Government services. Equipped with advanced digital technology, the platform will enhance cargo clearance process and other processes related to cross-border trade. Meanwhile, the various DFTZ dashboards will enhance enforcement capability and improve service delivery.

Conclusion

With the commencement of DFTZ operations, Malaysia will serve as a regional eFulfilment centre and hub for SMEs, marketplaces and monobrands. Furthermore, DFTZ is expected to boost cross-border trade through eCommerce and provide SMEs with greater access to the global market and enhance digital economy growth. In this regard, SMEs need to be agile to the fast-changing business environment and be able to participate in the international supply chain actively.

Figure 1.3.1. The Components of Digital Free Trade Zone

Source: Malaysia Digital Economy Corporation.

To support and boost the entrepreneurial ecosystem, the Government declared 2017 as the Startup & SME Promotion Year (SSPY). In this regard, Malaysian Global Innovation and Creativity Centre (MaGIC) in collaboration with several non-governmental organisations (NGOs) carried out various programmes including ColossusINNO2017, TENxCLUB, Artistlabs Accelerator and Impact4Humanity. As at end-August 2017, a sum of RM1.5 million was spent on these programmes. In addition, SME Corp. implemented six High Impact Programmes (HIPs) to empower SMEs which include to develop the MalaysiaBiz Portal, promote innovation and commercialisation, provide co-funding for early-stage SMEs, and enhance Going Export (GoEx). As at end-August 2017, a sum of RM7.5 million was expended on these programmes.

Public transport and connectivity were improved to increase mobility and ease traffic congestion in the country. In this regard, the construction of Mass Rapid Transit (MRT) and the extension of Light Rail Transit (LRT) systems within the Greater Klang Valley were implemented. While the MRT line from Sungai Buloh to Kajang was operational on 17 July 2017, the MRT line connecting Sungai Buloh, Serdang and Putrajaya, and LRT3 from Bandar Utama to Klang are under construction. Meanwhile, the East Coast Rail Link Project (ECRL) involving the construction of an electrified railway from Port Klang to Pengkalan Kubor was launched on 9 August 2017. In addition, construction works on Pan Borneo Highway launched on 31 March 2015 in Sarawak and 24 April 2016 in Sabah are ongoing.

Feature Article 1.1

Enhancing Mobility through Rail Connectivity

Introduction

An efficient and integrated public transport system is vital to fulfilling the needs of the rakyat as they commute daily, be it for work or leisure. It also contributes to productivity, health and quality of life through reduced cost and time saved on commuting. Other benefits include a cleaner environment, better utilisation of public space and increased road safety for all users. In this regard, the Government has introduced and implemented various initiatives to improve public transportation including several new rail services as well as extending and upgrading existing networks.

Types of Rail Services

Electric Train Service

The Electric Train Service (ETS) is an intercity rail service operated by Keretapi Tanah Melayu Berhad. The first service was from Kuala Lumpur to Ipoh on 12 August 2010. The routes were later extended from Padang Besar to Gemas on 10 October 2015. The line has 44 stations with a length of 755 km. The ETS is capable of speeds of up to 160 km/h, cutting travel time in half compared with current intercity trains. Hence, travel by train from Kuala Lumpur to Padang Besar now only takes approximately five hours and fifteen minutes compared to the road which takes more than six hours. There are three types of ETS Train services, namely ETS Platinum, ETS Gold and ETS Silver.

Mass Rapid Transit

In December 2010, the Government approved the Klang Valley Mass Rapid Transit (KVMRT) project. The first MRT line was the 51 km MRT Sungai Buloh – Kajang (SBK) Line which has 31 stations including seven located underground. Each train set has four cars. A total of 58 trains are operating along the MRT SBK Line, allowing a frequency of one train every 3.5 minutes during peak hours. Travel time varies, from 3.5 minutes to 5 minutes, depending on the distance between stops while the journey from Sungai Buloh to Kajang takes approximately 84 minutes.

Phase one of the SBK Line from Sungai Buloh to Semantan commenced operations on 16 December 2016. Meanwhile, on 17 July 2017, the second phase of the line from Semantan to Kajang began services and links to KL Sentral, Klang Valley's central transit hub. The SBK line is capable of transporting about 400,000 passengers daily.

The MRT Sungai Buloh – Serdang – Putrajaya (SSP) Line is the second line to be developed under the KVMRT project. The line will form a critical component of Klang Valley's public transport system by providing better rail coverage along a corridor stretching from Sungai Buloh to Putrajaya. The proposed alignment of 52.2 km consists of 38.7 km of elevated tracks and 13.5 km of underground tracks with a total travelling time of about one hour and 24 minutes. It will have 35 stations, where 24 are elevated and 11 underground. The SSP Line is expected to have a ridership of 529,000 passengers per day once full service starts in the second quarter of 2022.

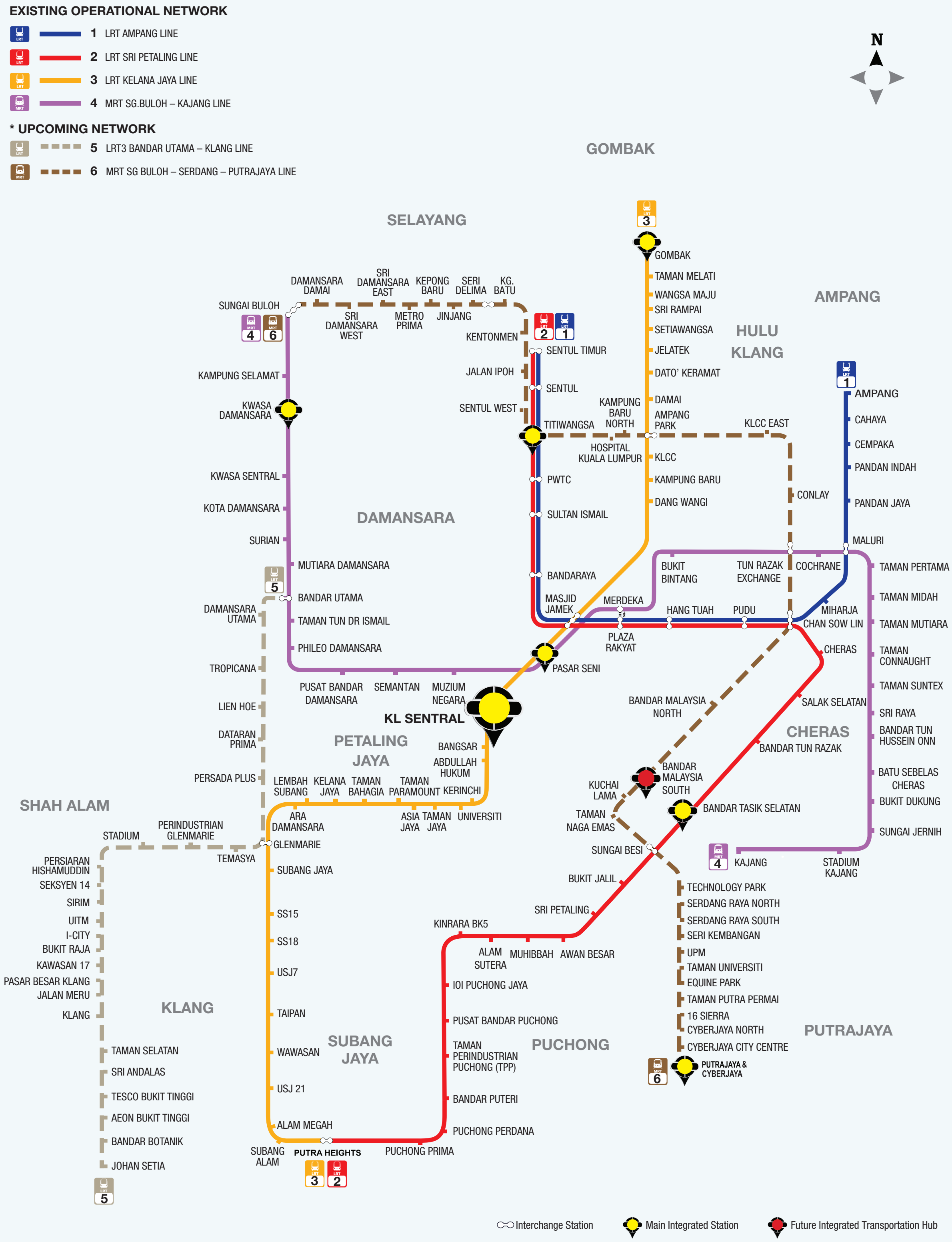
Light Rail Transit Line 3

In addition to the existing LRT lines, the Light Rail Transit Line 3 (LRT3) will link Bandar Utama to Klang within 58 minutes. The line has an overall distance of 37 km which targets to serve 2 million people. The LRT3 will have 26 stations and is capable of transporting up to 36,720 passengers per hour. The trains will include six modular cars and can travel at a maximum speed of 80 km/h. Furthermore, LRT3 is the first rail project with green technology in Malaysia, where the features include noise reduction system, improved energy management system, natural ventilation and rainwater harvesting technology at its stations. The construction of the LRT3 began in the second quarter of 2017 and is expected to complete by February 2021.

East Coast Rail Link

The East Coast Rail Link (ECRL) is a catalytic infrastructure project for the East Coast Economic Region which improves rail connection to Pahang, Terengganu and Kelantan. The 706.9 km track is expected to enhance growth in these states by connecting Port Klang to ports on the east coast as well as stimulate economic activities. ECRL will also provide a fast and convenient travel option for the rakyat.

Figure 1.1.1. Mass Rapid Transit (MRT) & Light Rail Transit (LRT) Routes



* Note: LRT3 Bandar Utama-Klang Line and MRT Sg. Buloh-Putrajaya Line projects will be operationalised in the future.

Source: Land Public Transport Commission (SPAD).

The first phase from Gombak to Wakaf Bharu comprises 524.4 km of mainline and approximately 76 km of spur line and links to the existing Keretapi Tanah Melayu network. Meanwhile, the second phase will be from Gombak to Port Klang with a distance of 78.6 km while the extension line is 24.5 km from Wakaf Bharu to Pengkalan Kubor. The first phase commenced in August 2017 and is expected to be fully operational in 2024. Upon the commencement of service, the journey from Gombak to Kota Bharu will take less than four hours compared with an average of seven hours or more by road.

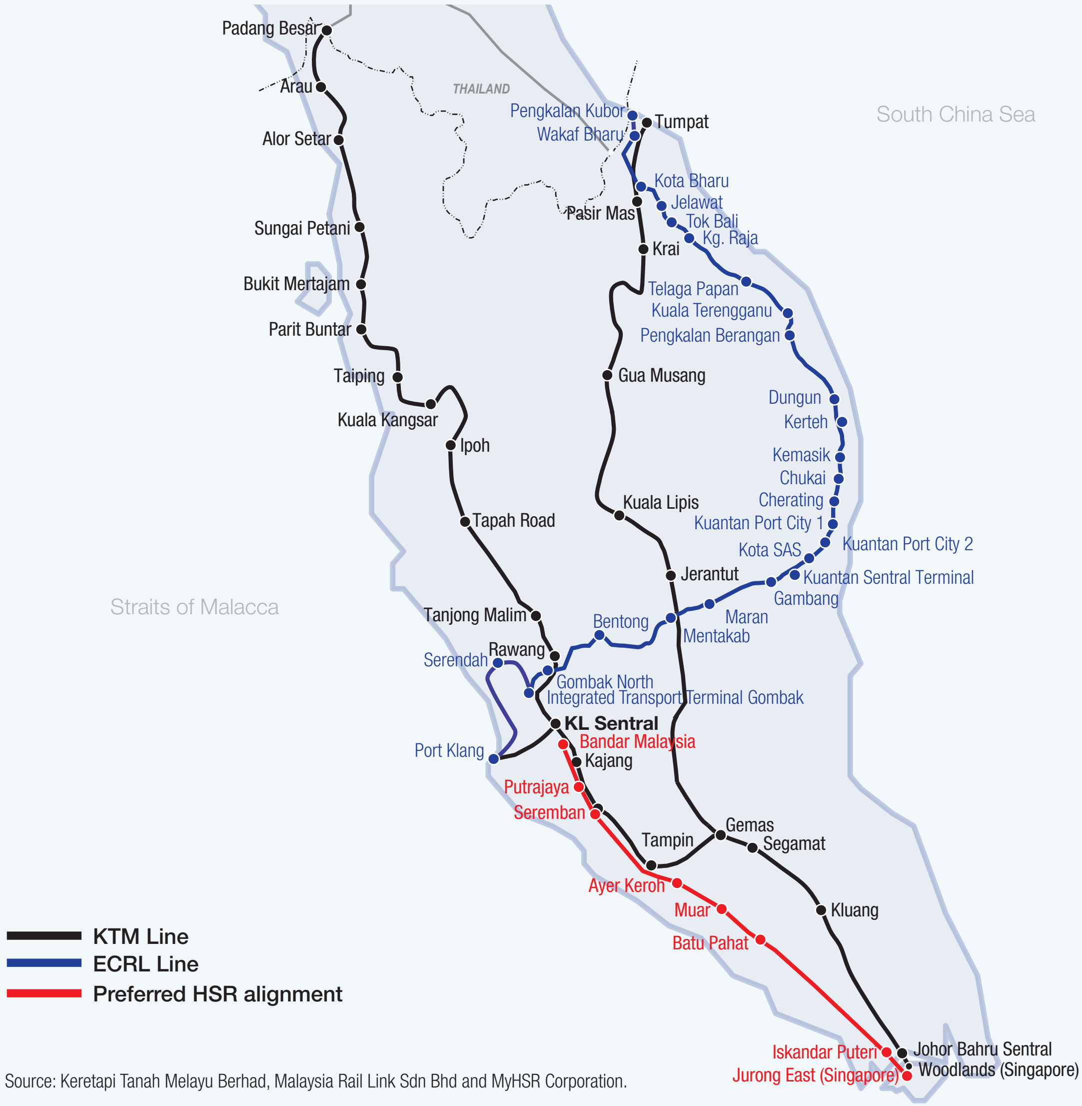
High Speed Rail

The High Speed Rail (HSR) will be the fastest mode of public transport between Kuala Lumpur and Singapore, with a distance of 335 km in 90 minutes. The HSR links two major cities to meet growing demand by commuters and businesses, consequently catalysing growth as well as enhancing competitiveness. Furthermore, smaller towns along the line are expected to benefit from the spillover effect of economic activities. The HSR will connect seven cities and towns in Malaysia to Singapore and fully operational by end-2026.

Conclusion

The Government will continue to focus on improving public transport, mainly rail services. The effort is in line with the aim of increasing public transport modal share to 40% by 2030 and to meet the demands of the rakyat for a reliable, environment-friendly and modern mode of public transportation. Moreover, improved rail services will bring about efficient connectivity between the urban and rural areas, therefore spurring economic activities and contributing towards inclusive growth.

Figure 1.1.2. East Coast Rail Link (ECRL) & High Speed Rail (HSR) Routes



Source: Keretapi Tanah Melayu Berhad, Malaysia Rail Link Sdn Bhd and MyHSR Corporation.

Strengthening Human Capital

The Government continues to strengthen the education system to produce quality human capital to meet the requirement of the industry. Various programmes were implemented across the education system including the 1Malaysia Training Scheme (SL1M). With regard to pre-school education, the Unity Kindergarten teachers' academic qualification were upgraded to diploma level. The Government also continues to provide Additional Food Assistance and Per Capita Grant to students in Tabika KEMAS, Taska PERMATA KEMAS and other pre-schools. As at end-August 2017, a sum of RM172.2 million was expended benefitting 434,237 students. Furthermore, pre-school fees assistance was also provided to parents with per capita income of RM500 and below to enrol their children in private pre-schools. As at end-August 2017, a sum of RM18 million was expended to assist 32,378 children.

Meanwhile, a sum of RM367.4 million was expended on the construction and upgrading of 227 primary and secondary schools nationwide. To enhance English language proficiency among students, the Government carried out the Dual Language Programme and Highly Immersive Programme in 6,715 schools. At the same time, the realignment of curriculum, assessment methods and learning, and training of all English teachers with the necessary skills set was implemented in line with the Common European Framework of Reference for Languages (CEFR). As at end-August 2017, these initiatives involved an expenditure of RM37.2 million. In addition, computer tablets with Tutor Guru software and eNewspaper were provided to teachers to inculcate eLearning in classrooms. The tablets enable teachers to obtain additional information and promote creativity in their teaching. As at end-August 2017, the initiative involved the expenditure of RM148 million, benefitting 244,216 teachers. The Government also continued to provide Additional Assistance Payment for School Fees, Textbook Assistance and Per Capita Grant Assistance to strengthen teaching and learning in schools. As at end-August 2017, a sum of RM1.1 billion was disbursed benefitting about 4.8 million students.

To foster research activities and increase publications and intellectual properties in institutions of higher learning, a total of RM78 million was disbursed to 941 research fund applicants. In addition, the Government continued to provide scholarships to students, teachers and medical officers to pursue tertiary education. As at end-August 2017, a total of RM2.5 billion was expended on these initiatives benefitting 219,496 recipients under Public Service Department, Ministry of Higher Education, Ministry of Education, Ministry of Health, and Majlis Amanah Rakyat (MARA).

The Government is committed to enhancing technical and vocational education and training (TVET) to produce a workforce that meets industry requirements. In this regard, infrastructure, facilities and equipment in polytechnics nationwide are being upgraded involving the expenditure of RM271.4 million. Meanwhile, Human Resources Development Fund (HRDF) in collaboration with the Federation of Department of Skills Development (DSD) Accredited Centres Malaysia (FeMAC) implemented the Recognition of Prior Experiential Learning (RPEL) Scheme in April 2017. To date, a total of 1,058 employees benefited from the scheme. In addition, the transformation of nine Institute of Teacher Education campuses into polytechnics, vocational colleges and TVET Coaching Training Centre are ongoing and expected to be operational by 2019 benefitting 1,568 students and 600 TVET trainers annually.

SL1M was established to enhance graduates' employability, especially those from rural areas and low-income families. Under this scheme, graduates are trained up to 12 months comprising two months of soft-skills enhancement and 10 months on-the-job training. Participating companies fund the training expenditure and trainees' allowances. As at end-August 2017, a total of 57,574 graduates benefited from SL1M. To further improve SL1M, beginning 1 August 2017, companies awarded with Government contracts are required to implement the scheme with a minimum allocation of 1% of the contract value.

Towards mainstreaming women's role in national development, the Government created an enabling environment for women to achieve their full potentials. In this regard, allocations were made to finance various programmes, including Incubator Skills Training for Single Mother (I-KIT), Women's Entrepreneurship Incubator Programme (I-KeuNita) and Career Comeback Programme (CCP). I-KIT and I-KeuNita provide intensive and comprehensive skills, and entrepreneurship training to help women generate income through businesses. Apart from encouraging women to participate in businesses, the Government through CCP provides financial incentives for employers to recruit women on career breaks.

Improving the Rakyat's Income and Welfare

The Government is committed to improve the rakyat's income and welfare by leveraging various measures through amendments of laws and regulations, intensifying National Blue Ocean Strategy (NBOS), improving welfare programmes, and utilising digital platforms. With respect to amendments of laws and regulations, the Land Public Transport Act 2010 and the Commercial Vehicle Licensing Board Act 1987 were approved by

Dewan Negara on 15 August 2017, making Malaysia the first country to legalise eHailing services. The approval paves the way for the rakyat, particularly the B40 to enhance their income from the sharing economy. Other initiatives are the agropreneur and mobilepreneur programmes which aim to create more entrepreneurs. As at end-August 2017, a total of 1,657 entrepreneurs benefited from grants totalling RM20 million.

To benefit from job opportunities in the digital economy, MDEC continued to implement the eUsahawan and eRezeki programmes. These programmes aim to encourage youths and micro-entrepreneurs to venture into digital business and develop their digital entrepreneurship skills. As at end-August 2017, a sum of RM66.1 million was expended on these programmes benefitting 108,504 participants.

Feature Article 1.2

The Sharing Economy: Driving Economic and Social Empowerment through Digital Platforms

Introduction

Sharing economy is a socio-ecosystem built around the sharing of assets via digital platforms to create economic value through increased utilisation of resources between individuals, businesses and governments.[1] This new business model brings unlimited potentials in the creation of new ventures and innovative solutions, transforming traditional firms, enabling them to contribute more to socioeconomic growth. Sharing economy also has the potential to address developmental challenges such as urban planning, sustainable living and seamless transportation by offering efficient use of resources and increases productivity. Sharing economy activities include:

- utilisation of durable assets such as ride-sharing and home-sharing (Uber and Airbnb);
- recirculation of goods such as selling second-hand books and toys through secondary markets (Mudah.my);
- exchange of services such as matching providers with users (eRezeki); and
- sharing of productive assets such as crowdfunding (Kickstarter).

Benefits of Sharing Economy

The innovations and new business models brought forth by the sharing economy will bring benefits across the ecosystem of consumers, entrepreneurs, suppliers and producers. It encourages efficient resource utilisation; provides substantial investment potentials; creates more jobs; and promotes digital inclusion. Sharing economy allows for better matching of demand and supply, improving productivity and minimising inefficiencies. For example, 77% of Malaysian small truck and haulier delivery services had suffered from empty truck backload. By implementing or leveraging on the ride-sharing model, empty runs could be reduced and potentially lead to cost savings from 13% to 19% to operators.[2]

Sharing economy has further enabled self-employment and entrepreneurship. In 2016, there were 400,000 freelance jobs in Malaysia and is expected to grow to 650,000 by 2020.[3] In addition, increased job opportunities through digital sharing could help to address the problem of youth unemployment which recorded 10.5% in 2016, higher than the national unemployment rate of 3.4%.[4] Sharing economy will create about 300,000 new jobs for youths by 2020 (2016: 190,000).

The sharing economy plays a significant role in ensuring greater participation by the rakyat, especially the B40.[5] By participating in services like ride-sharing or home-sharing, the B40 can utilise the latest technologies to generate additional income. The extra earnings would enable them to improve their quality of life, thus promoting upward mobility.

---

[1] MDEC-Monitor Deloitte Analysis (2017). Malaysia Digital Economy Corporation.

[2] Transport4u Haulage Exchange (2015). Retrieved August 24, 2017 from http://www.transport4u.com.my/page/land-transportation-research-malaysia-2015

[3] MDEC-Monitor Deloitte Analysis (2017). Malaysia Digital Economy Corporation.

[4] Malaysia Industrial Development Finance Berhad (2017). Retrieved August 24, 2017 from http://www.midf.com.my/images/pdf/research-Report/MIDF-Economics/Econs-Msia-2016-Youth-Unemployment-Rate-Remain-High-MIDF-090517.pdf

[5] Refers to the bottom 40% of households with average monthly income RM3,860 and below.

The Way Forward

The global value of sharing economy amounted to USD270 billion in 2016 and is expected to grow 30% yearly to USD3.1 trillion by 2025.[6] Meanwhile, Malaysia recorded about RM3.4 billion in 2016 and projected to reach RM17 billion by 2020.[7] Backed by a thriving digital economy and strong fundamentals in place, Malaysia aspires to become a leading country in the region in sharing economy. The significant growth in broadband connectivity, the willingness of the population to participate, implementation of various Government initiatives, and adjustments in regulations to suit the needs of the changing business environment support the aspiration.

Based on a recent survey, 89% of the respondents agreed that the sharing economy depends on trust between providers and users. Moreover, 69% said that they would not participate in the sharing economy unless recommended by someone they trust.[8] The survey reveals that trust is one of the critical factors in determining the success of sharing economy. According to Nielsen Global Share Community Report 2014, 68% of the global population is willing to participate in the sharing economy. In Malaysia, there are more than 18 million accounts[9] registered with top social network sites, one of the highest in the region. The vast number reflects that the population is ready and keen to participate in the sharing economy, signalling a high growth potential in the sector.

The Government is continuously implementing policies and regulations in line with the rapid development in sharing economy. In April 2017, the Dewan Rakyat passed the Self Employment Social Security Bill which seeks to provide Social Security Organisation (SOCSO) protection to every self-employed person including taxi drivers and eHailing service providers. The move is timely to address the changing needs of workers and employers given the emergence of the "Gig Economy".[10] Following this, on 15 August 2017, the Dewan Negara legalised eHailing services in the country by passing amendments to the Land Public Transport Act 2010 and the Commercial Vehicles Licensing Board Act 1987. Henceforth, operators will be required to own an "intermediation business licence" issued by the regulatory authority.

Conclusion

The sharing economy has made significant inroads in accommodation and transportation sectors. With the rapid advances in digital technology coupled with various initiatives and policies, the sharing economy will gain further momentum in other areas such as manufacturing and healthcare. However, there is a need to balance between the benefits and implications brought about by the sharing economy, such as government revenue, private sector participation, and consumer and worker protection. The Government will continue to work closely with all stakeholders to bring about change in the mindset to embrace this new technology and expedite the implementation of various initiatives by creating an ecosystem that supports growth of the sharing economy.

---

[6] MDEC-Monitor Deloitte Analysis (2017). Malaysia Digital Economy Corporation.
[7] MDEC-Monitor Deloitte Analysis (2017). Malaysia Digital Economy Corporation.
[8] PricewaterhouseCoopers (2015). Retrieved August 24, 2017 from http://pwc.com/CISsharing
[9] Statista (2017). Retrieved August 24, 2017 from https://www.statista.com/statistics/489233/number-of-social-network-users-in-malaysia/
[10] A labour market characterised by prevalence of short-term contracts or freelance work as opposed to permanent jobs. (Oxford English Dictionary).

The 1Malaysia People's Aid (BR1M) programme was designed to ease the burden of low- and lower-middle income households and single individuals. As at end-August 2017, a total of 4.2 million households and 3 million singles benefited from the RM6.3 billion disbursed under BR1M. At the same time, 36,593 next of kin of BR1M recipients received a compensation of RM1,000 each under the Bereavement Scheme. As at end-August 2017, the scheme involved an expenditure of RM36.6 million.

The Government remains committed in improving the efficiency of government service delivery. In this regard, the Budget announced the establishment of four new Urban Transformation Centres (UTCs) in Negeri Sembilan, Perlis, Pulau Pinang and Selangor and three more Rural Transformation Centres (RTCs) in Selangor, Sabah and Sarawak. UTC Negeri Sembilan, UTC Perlis and RTC Sarawak are expected to be operational by November 2017. As at end-August 2017, a total of RM42 million was expended on these initiatives. To further enhance service delivery in UTCs, Job Centres were established in Johor, Kedah, Kelantan, Kuala Lumpur, Melaka, Pahang, Perak, Sabah, Sarawak and Terengganu. The centres provide job matching services and as at end-August 2017, a total of 85,000 jobseekers have benefited from this initiative. Other initiatives under NBOS include the 1Malaysia English and Coding@Schools programmes. As at end-August 2017, a total of 16,280 participants benefited from these initiatives with a total expenditure of RM5.5 million.

Information Box 1.4

Coding@Schools

Introduction

Digital technology has become an integral part of our lives following greater usage of applications to provide solutions in our daily life. Development of applications requires knowledge of programming and skills in coding. Coding@Schools, announced in the 2016 Budget, is an introductory programme for primary students to learn the basics and fundamental principles of coding practically. The programme's primary objective is to nurture them to become content creators and contributors to the digital ecosystem rather than mere consumers.

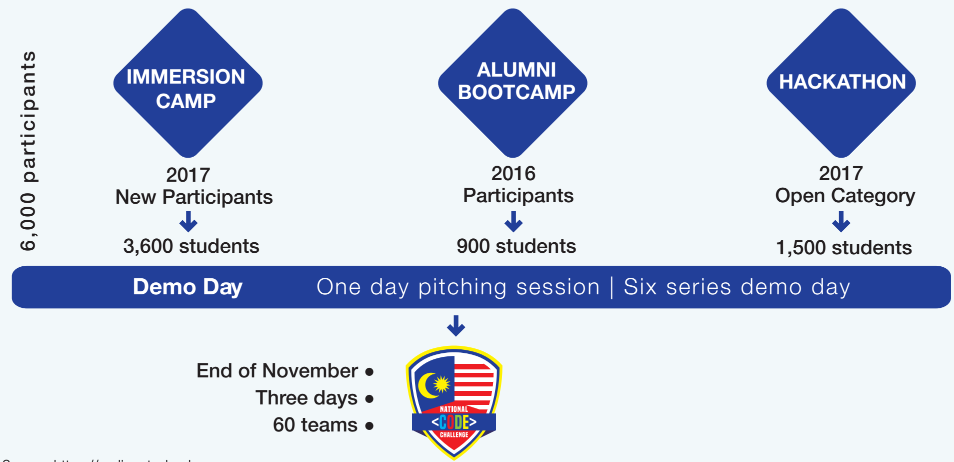
Implementation

The programme is designed and coordinated by the Ministry of Finance in collaboration with all state education departments and StartupMalaysia. The initiative is structured based on three pillars, namely Code, Create and Celebrate culminating in the National Code Challenge. Students in primary four to six in selected schools throughout the country attend Coding@Schools as extra-curricular activities. Participants learn the basics of web programming that develops and enhances their skills in creating and writing code for software applications. In addition, the programme improves participants' soft skills such as creativity, thinking out of the box, teamwork, problem-solving and programming.

Programme Updates

The pilot programme in 2016 had reached 3,000 primary students from 100 schools nationwide. The success of the pilot programme has led to its continuation in 2017, with a more focus on rural schools while expanding its content to three categories: Immersion Camp, Alumni Bootcamp and Hackathon targeting 6,000 participants. Successful students from each group will be qualified to compete at the National Code Challenge.

Figure 1.4.1. Programme Structure



Source: https://codingatschools.com

Coding@Schools 2017 commenced in July culminating with the National Code Challenge to be held in November this year. As at end-September 2017, a total of 86 Immersion Camps and 22 Alumni Bootcamps have taken place. The programme has gained international recognition following the visit by Japan's Foundation of Multimedia Communication in June 2017.

Conclusion

Digitalisation is rapidly changing the economic landscape. Therefore, it is imperative to ensure that the future workforce remains relevant and competitive. In this regard, Coding@Schools is vital to be absorbed in the national school curriculum and institutions of higher learning to equip the younger generation with the necessary skills and abilities to be more creative and innovative. The move will enable them to fulfil the demands of future jobs and reap the benefits from the digital economy.

Providing quality healthcare to the rakyat remains a priority of the Government. In this regard, three new hospitals and seven new clinics are under construction in Perlis, Johor, Negeri Sembilan and Sarawak. As at end-August 2017, a total of 153 hospitals, 1,060 health clinics, 1,803 rural clinics, 357 1Malaysia Clinics (Klinik 1Malaysia), and 11 1Malaysia Mobile Clinics are in operation nationwide. Efforts were also intensified to enhance facilities in hospitals throughout the country including procurement of four units of angiogram machines, 150 ambulances and other equipment. As at end-August 2017, a sum of RM472.6 million was expended on these initiatives. Concurrently, 162 haemodialysis machines were provided in 54 private centres with an expenditure of RM10.8 million.

The Government continues to provide financial assistance to enhance social safety net for low-income families, children, senior citizens and persons with disabilities (PWDs). These include Federal General Assistance Scheme, Children Assistance Scheme, Senior Citizen Assistance, and PWDs Assistance. Moreover, additional eight Senior Citizen Activity Centres (PAWEs) were established to encourage senior citizens to remain healthy and active. As at end-August 2017, total expenditure on the programmes amounted to RM929.9 million.

Enhancing Inclusiveness

The Government is also committed to ensuring all segments of the society benefit from the nation's economic prosperity regardless of gender, ethnicity, socio-economic level and geographic location. In this respect, the wellbeing of Orang Asli was further enhanced through implementation of several initiatives including water treatment projects in Orang Asli villages, economic and entrepreneurship development programmes, and Village Resettlement in Sungai Ruil, Cameron Highlands. As at end-August 2017, a sum of RM126 million was expended on these initiatives. Meanwhile, the Government has implemented the Native Customary Rights (NCR) land survey by State Land and Survey Office to grant land titles to the natives in Sabah and Sarawak for the development of modern plantations.

The Government continues to address the needs of the Malaysian Chinese and Malaysian Indians. Existing initiatives for the Malaysian Chinese community include the upgrading of facilities in New Villages and provision of SME and microcredit loans. As at end-August 2017, a sum of RM135.5 million was disbursed to upgrade 790 infrastructure and essential amenities in New Villages and 1,020 residential houses, and loans for hawkers and petty traders.

With regard to the Malaysian Indian community, a sum of RM10 million was disbursed to expand 50 pre-school programmes in 33 National-type Tamil Schools nationwide, benefitting 1,475 students. In addition, Tekun Nasional (TEKUN) has disbursed RM12 million for income enhancing and business financing programmes benefitting 885 entrepreneurs. Furthermore, the Malaysian Indian Blueprint (MIB) was launched on 23 April 2017 to uplift the economic status of the community. Socioeconomic Development of Indian Community (SEDIC) is the secretariat for MIB.

Currently, only 37.4% of the SMEs are owned by Bumiputera. Towards empowering Bumiputera entrepreneurs, TEKUN has established TemanNita Programme Financing Scheme to enable Bumiputera women entrepreneurs to obtain easy, fast and efficient financing for business needs. As at end-August 2017, a sum of RM17.1 million was disbursed benefitting 2,878 women entrepreneurs.

In addition, Perbadanan Usahawan Nasional Berhad (PUNB) implemented eight programmes, namely SME Scheme, PROSPER Retail, PROSPER Wholesale and PROSPER Core. Other programmes are PROSPER Young Entrepreneur, Apprentice Graduate Programme, Training and Development, and PROSPER Property. As at end-August 2017, a total of 1,089 Bumiputera entrepreneurs and 116 young graduates benefited from the RM112.4 million expended on these programmes.

The Budget also allocated funds to MARA to implement MARA Entrepreneur Training, MARA Youth Entrepreneur Development and MARA Entrepreneur Development. These programmes aim to provide knowledge, skills and financing facility to entrepreneurs to enhance their business activities. As at end-August 2017, a total of 34,744 entrepreneurs benefited from RM101.1 million disbursed under MARA.

Meanwhile, the Bumiputera Education Steering Foundation (YPPB) implemented three programmes, namely Peneraju Skil, Peneraju Professional and Peneraju Tunas. Peneraju Skil gives focus to non-academically inclined youths, including drop-outs to be trained in industries such as oil & gas (O&G), business services, electrical and electronics (E&E) and tourism.

Peneraju Profesional aims to upskill the workforce through professional certification in high impact industries, such as business and financial services. Meanwhile, Peneraju Tunas assists students from low-income households to continue their studies. As at end-August 2017, these programmes involved a total cost of RM73.3 million benefitting 2,186 students.

Economic Management – 2018

The Malaysian economy will remain on its growth trajectory in 2018 propelled by domestic demand and supported by the external sector. The growth augurs well for a nation in transition from an upper-middle income economy to a high-income and advanced nation by 2020. Beyond 2020, TN50 aims to quantum leap Malaysia to be among the top 20 countries by 2050. Towards achieving these milestones, there are several opportunities to leverage and challenges to overcome. Through a process of extensive engagements, the Government has identified several opportunities and challenges for the nation. Over the longer-term, structural adjustments are necessary to realign policies with the new realities of the global economy. Against this backdrop, the challenge is for Malaysia to develop new strategies to further enhance the resilience of the domestic economy in coping with the changing landscape.

Opportunities and Challenges

External Environment

The global economy continues to strengthen in 2017, and the outlook brightens in 2018, supported by rising trade and investment activities and diminishing structural headwinds. However, risks to the global outlook remain tilted to the downside, in particular, policy uncertainties in major economies, including inward-looking policies, post-Brexit uncertainties, and geopolitical tensions could dampen global trade and investment. Furthermore, the pace of monetary policy normalisation could pose additional risk in the financial market.

Domestic Economy

Private Investment

On the domestic front, the implementation of ETP has enabled private investment to re-emerge as one of the critical drivers of economic growth. The share of private investment to GDP has increased from 11.6% in 2009 to 16.9% in 2016. To accelerate the momentum in private investment, particularly domestic investment, there is a need for businesses to increase capital outlays in the state-of-the-art technology, enhance the skills and competencies of local talents, increase the level of R&D and productivity, and reduce the dependency on the foreign workers. On its part, the Government will continue to provide a conducive environment to spur investment and broaden further and deepen the financial system to ensure optimal access to funding for businesses.

Exports

With regard to exports, Malaysian products from electronics to processed food are found in more than 200 countries worldwide. In addition, Malaysian companies providing services are gaining recognition among the global business community. From securing and completing projects ranging from highways to bridges, Malaysian companies are gaining a foothold in foreign countries such as the Middle East, India, Pakistan and Viet Nam. The challenge now is to build on the success to enable more companies to diversify their products and services and venture into new growth markets further.

Services Sector

The services sector remained the primary driver of the economy and leading generator of job opportunities, accounting for 54.3% of GDP, 17.6% of the country's total exports of goods and services and provided 8.8 million employment. In this respect, the tourism industry accounted for 14.8% of GDP and generated 3.2 million employment. However, in 2016, Malaysia recorded 26.8 million tourist arrivals with receipts amounting to RM81.2 billion, lower than the ETP's 2016 target of 30.5 million tourists and RM103 billion generated from tourists spending. In particular, lower tourist arrivals, spending and shorter length of stay contributed to the significant difference between actual and targeted tourist receipts. Thus, it is essential to attract high net worth individuals to boost tourism revenue. With regard to the logistics sector, there are ample opportunities to further improve in several areas, including technology adoption, transport facilities, integration with other transport modes and capacities of service providers.

Human Capital

In 2016, about 27.3% of the workforce was employed in skilled jobs, and 59.7% were in semi-skilled occupations, while only 13% in low-skilled employment. The target is for 35% of the total workforce to be skilled workers by 2020. Over the years, several measures were introduced to enhance human capital through the provision of quality pre-school, primary, secondary and tertiary education. Various initiatives were also launched to improve TVET education and promote lifelong learning. To further meet the expectations of employers, the Government continues its efforts to improve soft skills such as English proficiency, self-confidence, creativity, innovation, teamwork and leadership. The efforts are expected to enhance the employability of the Malaysian workforce further.

Wellbeing of the Rakyat

Enhancing the wellbeing of the rakyat entails improving the standard of living through the provision of affordable homes, quality healthcare and education, opportunities to improve income, safety and security, transportation, and essential amenities such as roads, water and electricity. While the demand for houses continues to increase amid rapid urbanisation and rising household income, the incoming supply of houses is not affordable. Given the mismatch, an option that has not been fully explored by potential buyers, particularly the younger generation is the rent-to-own or similar programmes. Meanwhile, Malaysia has achieved a commendable status in the provision of public health and services. New challenges arising from changes in lifestyle include the increasing cases of obesity, cardiovascular and other noncommunicable diseases. With regard to education, the Government recognises that the system will need to keep evolving to stay abreast with, if not ahead of, global trends. In this respect, the Malaysia Education Blueprint 2013-2025, and the Malaysia Education Blueprint 2015-2025 (Higher Education) will continue to evolve to enable Malaysian youth to thrive in the complex and ever-changing landscape.

Inclusivity

The Government's multidimensional inclusive policy creates an opportunity for all segments of the population to benefit from increased prosperity. The 2017 mid-year estimates, indicates that out of 31.7 million population, 68.8% were Bumiputera, 23.2% Malaysian Chinese, 7% Malaysian Indians and 1% people of other ethnic groups. Despite the diversity in population, Malaysians regardless of gender, ethnicity, socioeconomic status and geographic location continue to enjoy equitable access to quality education, employment, housing and healthcare. After successfully eradicating all but a few pockets of absolute poverty, the challenge now is to focus on sustainable improvements and upward mobility of the B40 and M40.

Strategic Initiatives – 2018 Budget

Given the external environment coupled with developments in the domestic economy, the Government will create new frontiers of opportunity for the rakyat and the business community. In this respect, the 2018 Budget will focus on stimulating domestic investment. Simultaneously, the Budget will focus on developing the future generation, enhancing the wellbeing of the rakyat and ensuring inclusivity. In essence, these initiatives will further strengthen the nation's economic fundamentals and lay the foundation for TN50 to position Malaysia among the top 20 economies in 2050.

Stimulating Domestic Investment

As an ideal gateway to ASEAN's population of more than 600 million, stable and attractive business environment, a burgeoning middle-class population, state-of-the-art infrastructure and rich diversity, FDI inflows into Malaysia have increased more than nine folds since 2009 to reach RM47.2 billion in 2016. In addition to positioning Malaysia as the destination of choice for foreign investment, the 2018 Budget will focus on domestic investment to stimulate growth and accelerate balanced development across the nation. Among the investment projects include ECRL, Pan Borneo Highway and High-Speed Rail. Other projects to improve accessibility and connectivity include the upgrading of broadband networks, ports, double-track railway lines and airports. Efforts will also be undertaken to attract significant investment in new growth areas such as the digital economy, medical tourism, Halal industry and maintenance, repair and overhaul (MRO) activity. At the same time, funds will be allocated for the development of new coconut and durian hybrids. Furthermore, SMEs will be incentivised to adopt Industrial Revolution 4.0 to elevate the industries' efficiency, productivity, return on investment, technology convergence and megatrends.

To sustain the role of the services sector as the key driver of growth, the Government will accelerate the implementation of the Services Sector Blueprint, and the Logistics and Trade Facilitation Masterplan. Within the services sector, the Government's emphasis is on the development of tourism, including medical tourism, logistics and venture capital industries. With regard to tourism, Malaysia's comparative advantage in scenery, hospitality, customs and culture, quality of food and friendliness of local people will be leveraged to attract a significant share of tourist flows to the region. To facilitate the strategic development of Malaysia's healthcare travel industry and to raise the country's profile as a globally preferred destination for world-class healthcare services, more new hospitals will be developed and existing ones upgraded. At the same time, promotions will be enhanced to showcase the country's dual heritage of warm hospitality and world-class healthcare services in new markets and facilitate the entry of medical tourists. The logistics subsector plays a vital role in supporting all sectors of the economy. Given its importance, the Budget will introduce measures to resolve bottlenecks and elevate Malaysia as a regional logistics player in the medium-term. At the same time, an efficient financing business model, with sufficient flexibility to adapt to market needs and opportunities are central for optimal allocation of capital to new growth areas, particularly for entrepreneurship to flourish in the country. In this respect, the Budget will introduce measures to create a vibrant venture capital industry in the country.

Developing Future Generation

The youth of today take centre stage in the socioeconomic development of the nation. Thus, it is crucial to galvanise their passions and desires into real actions. In this respect, the Government will revitalise efforts to enhance their skills, creativity, imagination and spiritual growth to serve the nation in the best possible manner. To create critical thinkers, increase science literacy and enable the next generation of innovators and entrepreneurs, the Government will continue to place emphasis on the importance of education, particularly in the academic disciplines of science, technology, engineering and mathematics. Apart from formal education and training, efforts will be intensified to strengthen policy guidance and regulatory frameworks for TVET and to improve partnerships with private sector and employers. Furthermore, the SL1M developed to increase graduate marketability and employability will be further enhanced. In addition, given that cross-border business communication, is most often conducted in English, its importance in the global marketplace cannot be understated. Towards this end, the Government will continue its endeavour to improve Malaysians' proficiency in the English language while at the same time upholding Bahasa Malaysia as the official language of the country.

With the increase in automation and introduction of latest technologies, the demand for skilled and multi-skilled employees will continue to rise in the coming years. Towards ensuring an adequate supply of skilled workers in the economy, the Government will allocate funds for various cross-skilling, upskilling, reskilling and expert skilling programmes in the 2018 Budget. Furthermore, with the integration of technology into individual's personal and professional lives, there is myriad of opportunities for the creation of software that meet these requirements. To benefit from these opportunities, coding is a fundamental skill needed for rakyat's participation in the digital economy. In this respect, the Coding@Schools programme currently available at 56 schools will be expanded to other schools nationwide. At the same time, Coding@Schools will be extended to institutions of higher learning.

Enhancing the Wellbeing of the Rakyat

The Government continues to adopt a holistic approach to improving the wellbeing of the rakyat through promoting physical vitality, mental alacrity, social satisfaction and personal fulfilment. The 2018 Budget will unveil strategies and programmes to create an environment that enables the rakyat to adopt and maintain healthy lifestyles. In this respect, the Government aspires to meet the housing needs of the rakyat by providing financing facilities to low- and middle-income households and expanding the rent-to-own programmes to low-income group. The Budget also improves access to quality healthcare and education, and other essential needs, including electricity and clean water throughout the nation.

To mitigate the impact of higher food and transportation prices, the Government will continue to allocate funds to enable all eligible citizens to benefit from various social assistance programmes. Furthermore, the Government will incentivise farmers and agropreneurs to produce more foods, including fresh fruits and vegetables. At the same time, channels will be provided for the younger generation to involve in the agriculture sector. In addition, efforts will be intensified to shorten the supply chain between producers and customers. Measures will also be introduced to enhance households' disposable income through entrepreneurship, capacity building and skills training programmes. For women on long career breaks, the Government will introduce new training, advice and support programmes to facilitate them to venture into entrepreneurship or assist them return to work.

Improving Inclusivity

While acknowledging the importance of the vibrant capital economy, the Government remains steadfast in promoting the people economy that enables all segments of the society to benefit from the wealth of the nation. The 2018 Budget's focus is on rural and urban development, including upgrading state and federal roads and bridges. Towards inclusivity in education, the Government will continue in its endeavour by providing special programmes for the indigenous people, support programmes for poor students, and narrow the education gap between rural and urban population by upgrading and expanding educational facilities and deployment of more qualified teachers. In ensuring sustainable development and strengthening the nation's resilience against climate change, the Budget will emphasise on promoting renewable energy, recycling and the use of energy efficient technology. At the same time, allocations will be provided for flood mitigation projects to assist the rakyat in flood-prone areas. To further empower women, programmes will be tailored to increase the female labour force participation rate in the economy.

Allocations will also be made to empower the Orang Asli and natives of Sabah and Sarawak. The Bumiputera agenda will be further enhanced to strengthen their participation in economic activities. In line with the Government's commitment and efforts to sustain the integration of Malaysian Chinese and Malaysian Indians in national development plans, the Budget allocates funds for various related programmes. At the same time, the Government doubles its efforts in enhancing unity and raising the profile of Malaysian athletes to compete on par at international level, through sport activities.

Given the measures in the Budget, efficient Government machinery is vital to ensure seamless delivery of services to meet the expectation of the rakyat. In this regard, the Government will continue to advance its human resource management practices to maximise staff performance and potential, while simultaneously promote work-life balance without compromising productivity or efficiency. Efforts will also be intensified to shift the value-cost frontier through NBOS to complement the Government's fiscal consolidation path. This entails rapid execution of high-impact programmes and projects at lower cost.

Prospects for 2018

The global economy is expected to expand 3.7% in 2018 (2017: 3.6%). The advanced economies are projected to register growth of 2% (2017: 2.2%), supported by strong domestic and external demand. In the emerging market and developing economies, GDP is expected to improve 4.9% (2017: 4.6%), mainly supported by higher global demand and rising market confidence, particularly in China, India and ASEAN. However, the global economy will still face some downside risks due to policy uncertainties in the major economies, rising protectionism, geopolitical tensions, the effects of climate change, and volatility in the financial markets.

The Malaysian economy will remain resilient in 2018, with real GDP expanding between 5% and 5.5%, led by domestic demand. Private sector expenditure continues to be the primary driver of growth with private investment and consumption growing 8.9% and 6.8%, respectively. Meanwhile, public sector expenditure is forecast to decline, in line with lower capital outlays by public corporations. On the supply side, growth is expected to be broad-based, with all sectors registering positive growth. Malaysia's external position is forecast to remain favourable supported by global growth and trade. Against this backdrop, the nominal GNI per capita is expected to increase 5.1% from RM40,713 in 2017 to RM42,777 in 2018. With investment growing at a faster pace, the savings-investment gap will narrow to 2.3% of GNI. The economy will continue to operate under conditions of full employment with an unemployment rate of below 4%, while inflation remains benign. In line with fiscal consolidation efforts, the fiscal deficit will further decline to 2.8% of GDP in 2018 (2017: 3%). Accordingly, the Federal Government debt remains sustainable within the prudent limit of 55% of GDP. These developments will further strengthen the nation's economic fundamentals and resilience to further propel the country towards the milestones of an advanced and high-income nation by 2020, doubling the size of the economy to RM2 trillion in 2025 and joining the ranks of top 20 countries by 2050.