NATIONAL COMPETITIVENESS: ROLE OF THE PUBLIC SECTOR IN MALAYSIA

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ABSTRACT

The public sector is an important catalyst in pushing the country's aspirations towards international competitiveness by facilitating efficient and effective implementation of government policies. This initiative requires strong bonding between public and private sectors as envisaged in our Malaysia Inc. policy to realize our Vision 2020 target. This paper will discuss the competitive performance of government policies and the issues of competitiveness related to the implementation of the policy by the public sector in Malaysia. The paper also provides an overview of competitiveness and elaborates on the IMD Competitiveness Model and the WEF Competitiveness Model. In addition, it also highlights the strengths and weaknesses of the public sector and the role of the public sector in enhancing competitiveness through collaboration, performance measurement and innovation. The efficiency of the public sector as a facilitator in dealing with matters pertaining to national development and as a service agency is reflected in the nation's competitiveness measurement. With capable and competitive human resource, the public sector can be the catalyst and pacesetter to the private sector.

INTRODUCTION

With the emerging economies of China and India, the economic and global market environments are becoming more intense. The ability of the nation to compete is more crucial than ever. In the face of a globalised economy, Malaysia needs to sharpen its competitive edge and comparative advantage. The public sector is an important catalyst in pushing the country's aspirations towards international competitiveness by facilitating efficient and effective implementation of government policies. This initiative requires strong bonding between the public and private sectors as envisaged in our Malaysia Inc. policy to realise our Vision 2020 target. This paper discusses the competitive performance of government policies and the role of the public sector in national competitiveness.

AN OVERVIEW OF COMPETITIVENESS

Competitiveness can be defined as the degree to which the nation can produce goods and services which meet the requirement of international markets, out-performing others, while its citizens enjoy a standard of living that is both rising and sustainable over the long-run. Our nation will remain strong and prosperous if the public and private sectors are able to manage national competitiveness factors effectively and efficiently. To do that, we need to measure where we are as compared to other nations. As Kaplan and Norton said, "If you can't measure it, you can't manage it."

At present, the National Productivity Corporation (NPC) is a Partner Institute to two international ranking agencies that measure the competitiveness of nations. The agencies are:

a) the International Institute for Management Development (IMD); and
b) the World Economic Forum (WEF).

The International Institute for Management Development (IMD) is based in Lausanne, Switzerland. The IMD has published The World Competitiveness Yearbook (WCY) annually since 1989. The report provides more than 300 indexes on 61 economies that participate in the study. The report provides benchmarks and trends as well as reference points on statistics and opinion data that highlight the competitiveness of key economies.

The World Economic Forum (WEF) is an independent international organization committed to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agendas. It is based in Geneva, Switzerland and publishes The Global Competitiveness Report (GCR). The GCR was first published in 1979 and its coverage has expanded to 125 major and emerging economies. The report comprises 137 indexes and provides an assessment of the comparative strengths and weaknesses of national economies and is used by governments, academics and business leaders.

The IMD Competitiveness Model

The World Competitiveness Yearbook (WCY) published by the IMD analyses and ranks the ability of nations to create and maintain a competitive environment.

Based on analysis made by leading scholars and by IMD's own research and experience, the methodology of the WCY divides the national environment into four main factors:

a) Economic Performance evaluates the macro-economic performance of the domestic economy. Sub-factors of economic performance are domestic economy, international trade, international investment, employment and prices.

b) Government Efficiency evaluates the extent to which government policies are conducive to competitiveness. Sub-factors of government efficiency are public finance, fiscal policy, institutional framework, business legislation and societal framework.

c) Business Efficiency evaluates the extent to which enterprises are performing in an innovative, profitable and responsible manner. Sub-factors of business efficiency are productivity and efficiency, labour market, finance, management practices, and attitudes and values.

d) Infrastructure evaluates the technological and scientific infrastructure, health and environment, and education.

Altogether, the WCY features 20 such sub-factors. These 20 sub-factors comprise more than 300 criteria. Each sub-factor does not necessarily have the same number of criteria. For example, it takes more criteria to assess Education than to evaluate Prices.

Criteria can be hard data, which analyses competitiveness as it is measured (e.g. GDP) or soft data, which analyses competitiveness as it is perceived (e.g. availability of competent managers). Hard criteria represent a weight of 2/3 in the overall ranking whereas the private sector opinion survey data represent a weight of 1/3. Aggregating the results of the 20 sub-factors leads to the overall ranking of the WCY.

The WEF Competitiveness Model

The Global Competitiveness Report (GCR) presents rankings according to 2 indexes: the Global Competitiveness Index (GCI) and the Business Competitiveness Index (BCI). The GCI provides a holistic overview of factors that are critical to driving productivity and competitiveness, and groups them into nine pillars (factors):

a) Institutions
b) Infrastructure
c) Macroeconomy
d) Health and primary education
e) Higher education and training
f) Market efficiency
g) Technological readiness
h) Business sophistication
i) Innovation

The BCI identifies the factors that underpin high productivity through these major components:

a) the sophistication (productivity) with which domestic companies or foreign subsidiaries compete in the country; and
b) the quality of the microeconomic business environment in which they operate.

The WEF competitiveness model assumes that the productivity of a country is set by the productivity of companies. According to the WEF, an economy, whether they are domestic firms or subsidiaries of foreign companies, cannot be competitive unless companies operating in that country are competitive.

The BCI ranking and evaluations are based on data extrapolated from results of the Executive Opinion Survey (EOS). This year, the EOS captured the expert opinions of over 11,000 business leaders and entrepreneurs. The factors evaluated were:

a) Macroeconomic Environment
b) Public Institutions: Corruption
c) Technology, Innovation and Diffusion
d) Domestic Competition
e) Human Resources: Education, Health and Labour
f) Cluster Development
g) General Infrastructure
h) Company Operations and Strategy
i) Public Institutions: Contracts and Law
j) Environment

ISSUES OF COMPETITIVENESS IN RELATION TO THE PUBLIC SECTOR IN MALAYSIA

An efficient public service delivery system in the Ninth Malaysia Plan is for the effective implementation of government policies towards productivity gain and national competitiveness. Productivity enhancement strives for cost reduction, enhanced foreign direct investment and higher standard of living. Productivity enhancement requires the public sector to assess their strengths and weaknesses in implementing government policies and service delivery system.

In the WCY 2006, Malaysia is ranked 23rd in overall performance out of 61 economies- an improvement of five (5) positions from the 28th position in 2005. Malaysia is ranked ahead of Germany which is at 26th position (WCY 2005: 23rd), Thailand at 32nd position (WCY 2005: 27th), France at 35th position (WCY 2005: 30th), South

Korea at 38th position (WCY 2005: 29th), and Italy at 56th position (WCY 2005: 53rd).

The performance of Malaysia in the WCY's four factors for the year 2006 are: Economic Performance: 11th position (WCY 2005: 8th), Business Efficiency: 20th position (WCY 2005: 25th), Infrastructure: 31st position (WCY 2005: 34th) and Government Efficiency: 20th position (WCY 2005: 26th). The criteria used to assess government efficiency are as in Attachment 1.

The competitiveness of the Malaysian government efficiency has improved by six (6) positions. The improvements were in the areas of public finance (2006: ranked 39, 2005: ranked 44), fiscal policy (2006: ranked 12, 2005: ranked 16), institutional framework (2006: ranked 13, 2005: ranked 18), and societal framework (2006: ranked 41, 2005: ranked 45). The improvement is in line with the continuous efforts to improve administrative machinery and delivery system undertaken by the government. This includes training to upgrade knowledge, skills and mind-set among the public servants, reducing bureaucratic red tape by simplifying and streamlining systems and procedures and the use of key performance indicators (KPIs).

The public sector needs improvement in business legislation. Malaysia was ranked at 31st position for the year 2006 compared to the 30th position for year 2005. The public sector needs to re-evaluate the implementation of policies related to business legislation. However, some criteria covered by business legislation such as customs authorities, protectionism, public sector contracts, and international transactions have recorded improvement. Details are as illustrated in Table 1 and Table 2.

Sub-Factors/Criteria	Rank 2006	Rank 2005
Public Finance	39	44
Fiscal Policy	12	16
Institutional Framework	13	18
Societal Framework	41	45
Business Legislation	31	30
- Customs' Authorities	26	39
- Protectionism	30	50
- Public Sector Contracts	38	53
- International Transactions	36	44
- Foreign Investors	53	54
- Access to Market Capital	39	47
- Subsidies	19	37
- Competition Legislation	25	35
- Product and Service Legislation	27	30
- Price Controls	50	53
- Parallel Economy	30	39
- Regulation Intensity	13	22
- Creation of Firms	15	19
- Labour Regulations	8	12
- Unemployment Legislation	6	13
- Immigration Laws	24	28
- Ease of Doing Business	18	17
- Investment Incentives	18	17
- Start-up Days	33 (2005)	26 (2004)
- Government Subsidies	56 (2004)	17 (2003)

Table 1: Government Efficiency: Sub-Factor Rankings, Malaysia

Criteria			WCY 2006 (n=61)
Strengths	1	Employer's social security contribution rate (compulsory contribution as a percentage of an income equal to GDP per capita)	5
	2	Political parties (do understand today's economic challenges)	6
	3	Exchange rate policy (supports the competitiveness of enterprise)	6
	4	Real personal taxes (do not discourage people from working or seeking advancement)	6
	5	Unemployment legislation (provides an incentive to look for work)	6
Weaknesses	1	Government subsidies (to private and public companies as a percentage of GDP)	56
	2	Foreign investors (are free to acquire control in domestic companies)	53
	3	Price controls (do not affect pricing of products in most industries)	50
	4	Government budget surplus/deficit (percentage of GDP)	48
	5	Discrimination (does not pose a handicap to society)	46

Source : WCY 2006

Table 2: Strengths and Weaknesses of Government Efficiency

According to the GCR 2006-2007, Malaysia was placed at 26th position. Malaysia exhibits one of the most efficient economies in the region, with flexible labour markets, relatively undistorted goods markets and public institutions that in many areas (e.g., rule of law, the legal system) are already operating at the level of the top performing EU members that participated in the 2004 GCR.

Some selected strengths and weaknesses related to the public sector in Malaysia as published by the GCR 2006-2007 are as in Table 3 below:

	Factors/Criteria	Rank/125
Strengths	Institutions	
	- Burden of government compliance	7
	- Wastefulness of government spending	9
	- Public trust of politicians	17
	- Favoritism in decisions of government officials	18
	- Protection of minority shareholders' interests	18
	- Reliability of police services	19
	Infrastructure	
	- Overall infrastructure quality	10
	Macroeconomy	
	- National savings rate (hard data)	10
	- Interest rate spread (hard data)	20
	Innovation	
	- Government procurement of technology product	2
Weaknesses	Institutions	
	- Business costs of terrorism	65
	- Organized crime	34
	- Business costs of crime and violence	32
	- Diversion of public funds	29
	Infrastructure	
	- Quality of electricity supply	33
	Macroeconomy	
	- Government surplus/deficit (hard data)	91
	- Government debt (hard data)	49
	Market efficiency	
	- Number of procedures to start a business (hard data)	44
	- Time required to start a business (hard data)	40

Source : GCR 2006-2007

Table 3: Selected Strengths and Weaknesses of Government Efficiency

In relation to the market efficiency of Malaysia, it was indicated that, it required nine (9) procedures and 30 days to start a business in Malaysia. In Australia, it required two (2) procedures and within two (2) days to start a business, while in Singapore, the number of procedures required was six (6) procedures and the time required was six (6) days to start a business.

Based on both reports, the public sector in Malaysia needs to propel the nation towards better performance for competitiveness. Any unsatisfactory performance of the public sector in the global context such as ease of doing business needs to be improved to sustain Malaysia as a preferred destination for trade and investment as well as to support and stimulate the competitiveness of Malaysia. Some avenues for addressing issues on the public sector competitiveness are continuous dialogues with the private sector as well as the effective implementation of government policies towards competitive human capital and innovative minds in the public sector. It is encouraging to note that A.T. Kearney in its Offshore Location Attractiveness Index 2004-2005 reported that Malaysia was ranked 3rd among 25 economies.

ROLE OF THE PUBLIC SECTOR TO ENHANCE COMPETITIVENESS

To build on our successes and remain competitive, the public sector in Malaysia has to continuously internalise excellent mechanisms propagated by the Government such as the public-private sector collaboration, performance measurement and innovation through teamwork.

Public-Private Sector Collaboration

The concept is based on the philosophy that public-private sector collaboration is a key ingredient for successful national economic development. The rationale for seeking such closer cooperation and collaboration lies in the recognition of the inherent interdependence between the public and private sectors. The private sector forms the commercial and economic arm of the nation, while the public sector provides the major policy framework and direction to enable the private sector to perform at world-class level. The more successful the private sector, the larger the number of private businesses, the greater the employment opportunities and the higher government revenues earned. This is turn means that more is available to the public sector in financing social-economic development projects and public administration improvements.

Generally, this collaboration will promote:

a) wider understanding of government strategies, policies and procedures;

b) private sector "voice" in the determination of strategies, policies and procedures, which in turn has promoted democratic consent, transparency in the decisions and actions of government, and market efficiency (through lower transaction costs);

c) an appropriate balance between stability and change in government policies; and

d) effective reaction to external changes.

At the moment, the public-private sector collaboration is carried out through consultative panels, dialogue sessions and jointly sponsored activities.

- **Consultative Panels**

The public sector views the establishment of consultative panels as pivotal in promoting the Malaysia Incorporated concept. The interaction at these collaborative panels is expected to generate a network for consultation, discussion and collaboration to allow for representation and participation from all sectors and sub-sectors of the economy. It is relevant to note that under the Development Administrative Circular No. 9 of 1991, it is mandatory to establish consultative panels.

NPC has established 11 consultative panels. The panels are in the areas of hospitality industry, human resources, development financial institutions, agriculture, information technology, logistics and transport, manufacturing sector, healthcare, productivity measurement, construction, and energy and utility. Some of the output from the NPC consultative panels are the proposed National Human Resource Development Master Plan and the Human Resource Framework that now have been incorporated into the Third Industrial Master Plan (IMP3) 2006-2020.

- **Dialogue Sessions**

In addition to the consultative panels, ministries and departments at the federal, state and district levels hold dialogue sessions with the private sector on a regular basis. These sessions are aimed at stimulating public-private sector open discussions with particular emphasis on government policies, rules, regulations and procedures that affect the performance of the business community and to obtain useful feedback for future government policy planning and implementation.

An example of a ministry, which organises annual dialogue sessions with the private sector is the Ministry of International Trade and Industry. The proposals made and feedback obtained from the sessions are subsequently used as inputs in policy formulation.

- **Jointly Sponsored Activities**

As part of the continuing efforts to further strengthen their close working relationship, both the public and private sectors are also encouraged to organise activities jointly, to promote greater understanding and cooperation between them and to encourage sharing of knowledge and experiences in various fields which are mutually beneficial. In the NPC, there are a number of formal activities, which have been organised jointly such as seminars, training and overseas trade missions.

In particular, these activities were found to allow the NPC and the private sectors to be closely acquainted and foster congenial personal ties which consequently facilitated their working together at the official level.

Performance Measurement

The Government has also introduced performance measurement at the organisational and individual levels. The objective is to ensure that the programmes and activities are implemented efficiently and effectively with set objectives. A manual entitled "Guidelines for establishing performance indicators in government agencies" was issued in 1993 and in 2005 a manual entitled "Guidelines for establishing key performance indicators" was issued to assist agencies in implementing performance measurement. The performance indicators were incorporated into the agency's annual budget estimates, annual reports and other feedback to the Government.

At the individual level, the "new performance appraisal" system, which is based on managing for results, linking rewards and recognition to performance indicators was introduced. Individual officers and staff are required to have annual work targets that are quantifiable. The targets are monitored at intervals to assess the actual performance of the officers and staff.

Innovation through Teamwork

Recognising that human resources constitute the most critical element in any organisational effort to increase productivity, the Government launched the Quality Control Circles programme in 1983. Under this programme, small groups comprising relevant personnel are formed to identify, select and analyse problems, and suggest solutions to top management for further consideration and implementation. The "Guidelines on Quality Control Circles", issued in 1991, suggests that the public sector agencies establish quality control circles as a mechanism to mobilise expertise, experience and employee creativity in solving problems which will lead to quality improvements.

In line with this, the NPC also has established its own QCC initiatives. This year, the NPC has 41 teams and has achieved cost savings of RM 1.2 million. Recommendations that have been implemented are in the area of work process improvement, revenue enhancement, ICT innovative application, knowledge management and cost savings.

CONCLUSION

The public sector in Malaysia must assume the pivotal role of being an enabler to the business community and drive the nation towards competitiveness. The efficiency of the public sector as facilitator in dealing with matters pertaining to national development and as a service agency is reflected in the nation's competitiveness measurement. With capable and competitive human resource, the public sector can be the catalyst and pacesetter to the private sector. Furthermore, the levels of service delivery in the public sector are becoming more crucial. That is why efforts are taken to strengthen and ensure an efficient service delivery system.

REFERENCES

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Attachment 1

GOVERNMENT EFFICIENCY CRITERIA USED BY IMD

Public Finance

2.1.01 Government budget surplus/deficit (US$ billions)

2.1.02 Government budget surplus/deficit (Percentage of GDP)

2.1.03 Total general government debt (US$ billions)

2.1.04 Total general government debt (Percentage of GDP)

2.1.05 Total general government debt - real growth (Percentage change, based on national currency in constant prices)

2.1.06 Central government domestic debt (Percentage of GDP)

2.1.07 Central government foreign debt (Percentage of GDP)

2.1.08 Interest payment (Percentage of current revenue)

2.1.09 Management of public finances (Management of public finances over the next two years is likely to improve)

2.1.10 Total reserves including gold and official reserves (gold = SDR 35 per ounce)

2.1.11 General government expenditure (Percentage of GDP)

Fiscal Policy

2.2.01 Collected total tax revenues (Percentage of GDP)

2.2.02 Collected personal income tax (On profits, income and capital gains, as a percentage of GDP)

2.2.03 Collected corporate taxes (On profits, income and capital gains, as a percentage of GDP)

2.2.04 Collected indirect tax revenues (Taxes on goods and services as a percentage of GDP)

2.2.05 Collected capital and property taxes (Percentage of GDP)

2.2.06 Collected social security contribution (Compulsory contribution of employees and employers as a percentage of GDP)

2.2.07 Effective personal income tax rate (Percentage of an income equal to GDP per capita)

2.2.08 Corporate tax rate on profit (Maximum tax rate, calculated on profit before tax)

2.2.09 Consumption tax rate (Standard rate of VAT / GST)

2.2.10 Employee's social security contribution rate (Compulsory contribution as a percentage of an income equal to GDP per capita)

2.2.11 Employer's social security contribution rate (Compulsory contribution as a percentage of an income equal to GDP per capita)

2.2.12 Real personal taxes (Real personal taxes do not discourage people from working or seeking advancement)

2.2.13 Real corporate taxes (Real corporate taxes do not discourage entrepreneurial activity)

2.2.14 Tax evasion (Tax evasion does not hamper business activity)

Institutional Framework

Central Bank

2.3.01 Real short-term interest rate (Real discount / bank rate)
2.3.02 Cost of capital (Cost of capital encourages business development)
2.3.03 Interest rate spread (Lending rate minus deposit rate)
2.3.04 Country credit rating (Rating on a scale of 0-100 assessed by the Institutional Investor Magazine ranking)
2.3.05 Central bank policy (Central bank policy has a positive impact on economic development)
2.3.06 Exchange rate policy (Exchange rate policy supports the competitiveness of enterprises)
2.3.07 Exchange rate stability (Parity change from national currency to SDR, 2005/2003)

State Efficiency

2.3.08 Policy direction of the government (Policy direction of the government is consistent)
2.3.09 Legal and regulatory framework (The legal and regulatory framework encourages the competitiveness of enterprises)
2.3.10 Adaptability of government policy (Adaptability of government policy to changes in the economy is high)
2.3.11 Government decisions (Government decisions are effectively implemented)
2.3.12 Political parties (Political parties do understand today's economic challenges)
2.3.13 Transparency (Transparency of government policy is satisfactory)
2.3.14 Public service (The public service is independent from political interference)
2.3.15 Bureaucracy (Bureaucracy does not hinder business activity)
2.3.16 Bribing and corruption (Bribing and corruption do not exist in your economy)

Business Legislation

Openness

2.4.01 Customs' authorities (Customs' authorities do facilitate the efficient transit of goods)
2.4.02 Protectionism (Protectionism does not impair the conduct of your business)
2.4.03 Public sector contracts (Public sector contracts are sufficiently open to foreign bidders)
2.4.04 International transactions (International transactions can be freely negotiated with foreign partners)
2.4.05 Foreign investors (Foreign investors are free to acquire control in domestic companies)
2.4.06 Access to capital markets (Access to capital markets (foreign and domestic) is easily available)
2.4.07 Investment incentives (Investment incentives are attractive to foreign investors)

Competition and Regulations

2.4.08 Government subsidies (To private and public companies as a percentage of GDP)
2.4.09 Subsidies (Subsidies do not distort fair competition and economic development)
2.4.10 Competition legislation (Competition legislation is efficient in preventing unfair competition)
2.4.11 Product and service legislation (Product and service legislation does not deter business activity)
2.4.12 Price controls (Price controls do not affect pricing of products in most industries)
2.4.13 Parallel economy (Parallel (black-market, unrecorded) economy does not impair economic development)
2.4.14 Regulation intensity (Regulation intensity does not restrain the ability of companies to compete)
2.4.15 Ease of doing business (Ease of doing business is prevalent in your economy)

2.4.16 Creation of firms (Creation of firms is supported by legislation)
2.4.17 Start-up days (Number of days to start a business)

Labor Regulations
2.4.18 Labor regulations (Labor regulations (hiring/firing practices,etc.) do not hinder business activities)
2.4.19 Unemployment legislation (Unemployment legislation provides an incentive to look for work)
2.4.20 Immigration laws (Immigration laws do not prevent your company from employing foreign labor)

Societal Framework
2.5.01 Justice (Justice is fairly administered)
2.5.02 Personal security and private property (Personal security and private property are adequately protected)
2.5.03 Risk of political instability (The risk of political instability is very low)
2.5.04 Social cohesion (Social cohesion is a priority for the government
2.5.05 Income distribution - lowest 20% (Percentage of household incomes going to lowest 20% of households)
2.5.06 Income distribution - highest 20% (Percentage of household incomes going to highest 20% of households)
2.5.07 Discrimination (Discrimination (race, gender, etc.) does not pose a handicap in society)
2.5.08 Females in parliament (Percentage of total seats in Parliament)
2.5.09 Female positions (Percentage of total legislators, senior officials and managers)
2.5.10 Gender income ratio (Ratio of estimated female to male earned income globally)
2.5.11 Harassment (Harassment (unethical behaviour, etc.) does not disturb the work environment)