
03

FIVE STRATEGIC
THRUSTS AND
NATIONAL-LEVEL
INITIATIVES

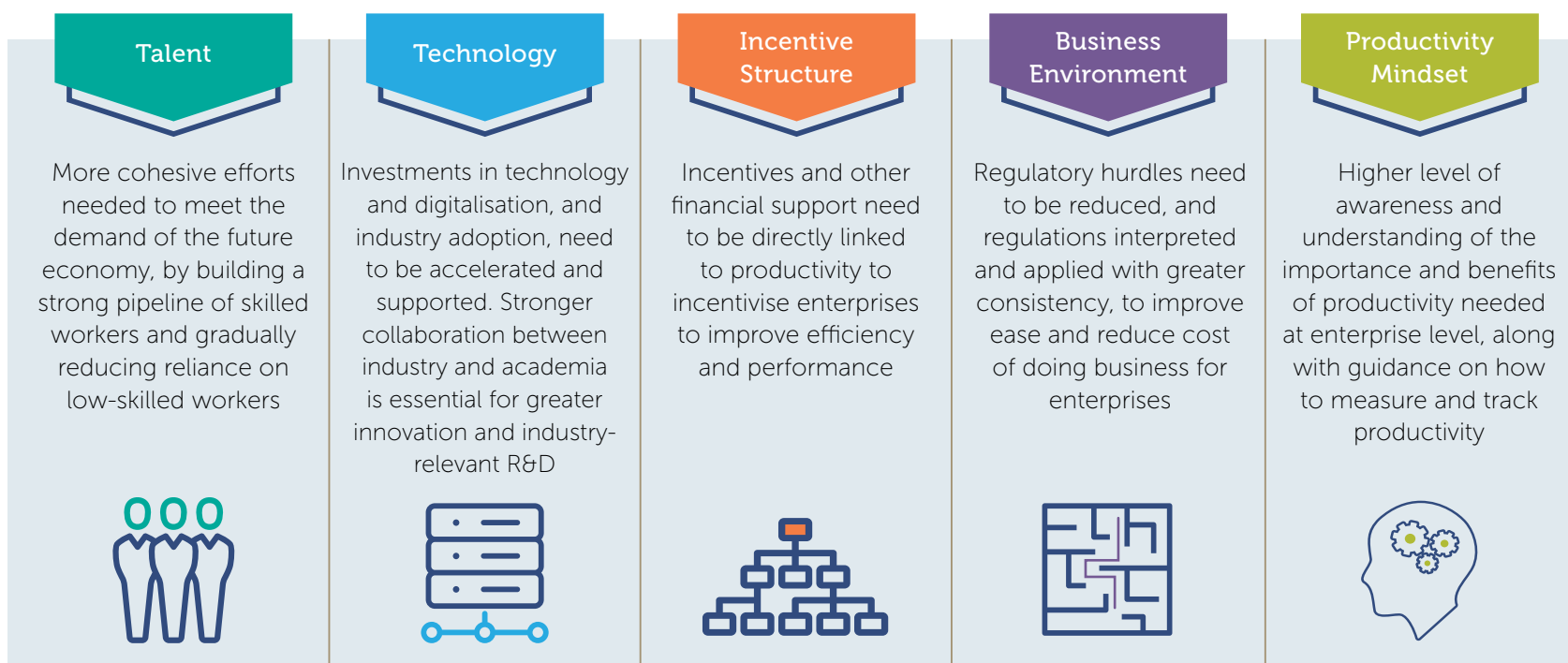
The Blueprint presents a holistic approach towards unlocking the potential of productivity of the nation by addressing productivity challenges at all levels – national, sector and enterprise levels. This new approach to productivity will shift from primarily government-driven initiatives at the national level to targeted actions across industry players and individual enterprises, with industry champions identified to role model change and ensure buy-in across stakeholders. This chapter will focus on national-level initiatives to address cross-cutting issues.

Despite the numerous initiatives introduced in the past, productivity levels are still wanting by all measurements and the economy remains highly dependent on traditional factor inputs of labour and capital. The Blueprint presents a holistic approach towards unlocking the potential of productivity of the nation by addressing productivity challenges at all levels – national, sector and enterprise levels. This new approach to productivity will shift from primarily government-driven initiatives at the national level to targeted actions across industry players and individual enterprises, with industry champions identified to role model change and ensure buy-in across stakeholders. Broad-based initiatives will be developed and tailored for each sector with targets set and monitored. At the national level, productivity-linked incentives will be introduced and regulatory reforms will be accelerated. At the sector level, industry champions will spearhead sector-specific productivity initiatives, while at the enterprise level, incentives and upskilling programmes will be provided. Collectively, these strategies will produce a set of major shifts in productivity for the nation.

This chapter describes the five national-level strategic thrusts that anchor the Blueprint recommendations: Building Workforce of the Future, Driving Digitalisation and Innovation, Making Industry Accountable for Productivity, Forging a Robust Ecosystem and Securing a Strong Implementation Mechanism. The ten national-level initiatives that align with the strategic thrusts are then presented, out of which 16 key activities that require action and implementation in the near future are identified. Finally, six immediate priorities are drawn from these activities.

Across the economic sectors, a set of common challenges is impeding productivity growth, requiring urgent action. These challenges are grouped into five clusters - talent, technology, incentive structure, business environment and productivity mindset (see Figure 3-1).

Figure 3-1 CHALLENGES FACED ACROSS SECTORS



While efforts have been made to raise productivity through various initiatives, effective implementation and enforcement of these initiatives needs to be further enhanced. To ensure effective implementation, the Blueprint has three guiding principles:

Figure 3-2 THREE GUIDING PRINCIPLES OF THE MALAYSIA PRODUCTIVITY BLUEPRINT



The Blueprint outlines immediate national-level priorities that require policy reforms and government intervention, while sector-level initiatives outline explicit sectoral strategies to remove sector-level productivity barriers. At the enterprise level, the Blueprint describes the specific enterprise strategies, and required expertise and support for enterprises to understand and tackle their productivity challenges on the ground.

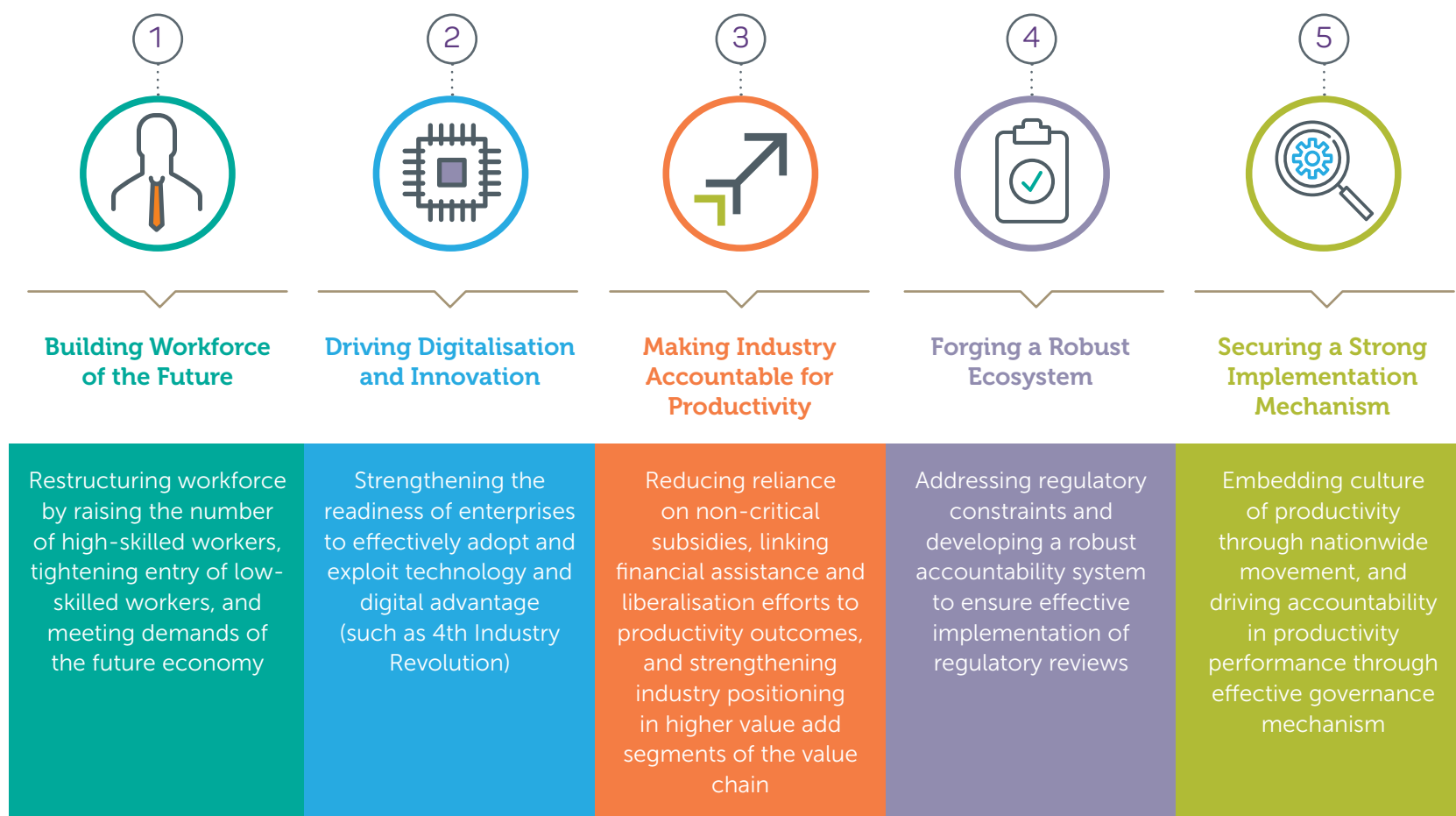
The Blueprint implementation requires oversight through a robust governance model. There are four clear roles required going forward: strategic oversight, advisory, coordination and monitoring as well as implementation. Strong coordination through a central hub is critical to driving implementation on the ground, with rigorous programme management to ensure transparency and accountability. Productivity Nexus¹ will play a key role in supporting enterprises on the ground, simultaneously improving the visibility of the implementation progress.

Enterprises need to understand the impact that productivity will have on their bottom line, and have access to a feasible method of tracking their productivity. It is essential that government mechanisms encourage productivity (such as by ensuring that incentives are linked to clear productivity outcomes) so that enterprises adopt productivity tracking as the norm. In addition, national-level campaigns should be launched to ensure targetted messages are emphasised to all segments of society.

1. Productivity Nexus is described in detail in Chapter 6.

Guided by these three principles, the five strategic thrusts at the national level to raise productivity are as follows (see Figure 3-3).

Figure 3-3 5 STRATEGIC THRUSTS AIMED AT ADDRESSING CHALLENGES IMPEDING PRODUCTIVITY GROWTH ACROSS SECTORS










Based on the five strategic thrusts, ten national initiatives and sixteen key activities (see Figure 3-4), will drive nation-wide productivity improvement.

Figure 3-4 THE 10 NATIONAL-LEVEL INITIATIVES IDENTIFIED THAT REQUIRE URGENT IMPLEMENTATION:

	THRUST	NATIONAL-LEVEL INITIATIVE	STAKEHOLDER
1	Building Workforce of the Future	N1 Enforce structural changes to the workforce by formulating a comprehensive labour market policy, including reducing reliance on low-wage and low-skilled workers	MOHA MITI Industry
		N2 Conduct national strategic workforce planning in anticipation of changing needs across the sectors	
2	Driving Digitalisation and Innovation	N3 Strengthen readiness, knowledge and adoption of technology by enterprises across sectors	MITI SME Corp MCOMM Industry
		N4 Strengthen digitalisation among SMEs through e-commerce and adoption of innovative technology	
3	Making Industry Accountable for Productivity	N5 Gradually reduce the reliance on non-critical subsidies, and ensure liberalisation efforts are linked to productivity outcomes	MOF MITI MOA
		N6 Realign key grants, incentives, soft loans and other funding mechanisms to productivity metrics and outcomes	
4	Forging a Robust Ecosystem	N7 Accelerate efforts to enhance whole-of-government approach towards addressing regulatory constraints	MPC
		N8 Establish an accountability mechanism for the implementation of regulatory reviews by the government	
5	Securing a Strong Implementation Mechanism	N9 Institutionalise a strong coordination and governance model to secure implementation certainty across government, sector, and enterprise levels	MITI
		N10 Launch nationwide productivity movement to inculcate a stronger culture of productivity across all segments of society	

Figure 3-5 16 KEY ACTIVITIES IDENTIFIED ACROSS ALL INITIATIVES

Building Workforce of the Future	Driving Digitalisation and Innovation	Making Industry Accountable for Productivity	Forging a Robust Ecosystem	Securing a Strong Implementation Mechanism
<p>N1 Enforce structural changes to the workforce by formulating a comprehensive labour market policy, including reducing the reliance on low-wage and low-skilled workers</p>	<p>N3 Strengthen readiness, knowledge and adoption of technology by enterprises across sectors</p>	<p>N5 Gradually reduce the reliance on non-critical subsidies, and ensure liberalisation efforts are linked to productivity outcomes</p>	<p>N7 Accelerate efforts to enhance whole-of-government approach towards addressing regulatory constraints</p>	<p>N9 Institutionalise a strong coordination and governance model to secure implementation certainty across government, sector, and enterprise levels</p>
<p>1 Restructure and improve the management of foreign workers</p> 	<p>7 Actively encourage adoption of 4th Industry Revolution technologies by companies, across main economic sectors</p> 	<p>9 Undertake necessary revisions to ensure regulations are aligned with liberalisation policies</p>	<p>13 Remove non-tariff measure that impede business growth and improve efficiency of the logistics sector</p> 	<p>16 Evolve governance model to drive game changing implementation of Malaysia Productivity Blueprint</p> <ul style="list-style-type: none"> • 4 key roles going forward – strategic oversight, advisory, coordination and monitoring, and implementation 
<p>2 Launch a National Wage Index and enhance the Productivity-Linked Wages System</p>		<p>10 Develop a schedule for removal of remaining non-critical subsidies</p>		
<p>N2 Conduct national strategic workforce planning in anticipation of changing needs across the sectors</p>	<p>N4 Strengthen digitalisation among SMEs through e-commerce and adoption of innovative technology</p>	<p>N6 Realign key grants, incentives, soft loans and other funding mechanisms to productivity metrics and outcomes</p>	<p>N8 Establish an accountability mechanism for the implementation of regulatory reviews by the government</p>	<p>N10 Launch nationwide productivity movement to inculcate a stronger culture of productivity across all segments of society</p>
<p>3 Accelerate the establishment of the Malaysian Bureau of Labour Statistics to improve labour market statistics and information</p>	<p>8 Strengthen digitalisation among SMEs through e-commerce and adoption of innovative technology</p> 	<p>11 Embed productivity targets for enterprises into disbursement processes of new grants, incentives and soft loans</p> 	<p>14 Strengthen the regulatory portal and mechanism to track regulatory review implementation</p>	
<p>4 Update job openings and employment projections given changing job profiles for key economic sectors</p>		<p>12 Review existing incentives to reduce/remove non-targetted incentives and align them to programmes with clear targets and outcomes</p>	<p>15 Establish state-level benchmarking indicators for businesses</p>	
<p>5 Assess specific human capital requirements of key economic sectors and pro-actively plan for future human capital needs</p>				
<p>6 Ensure focused efforts on up-skilling and re-skilling in industry through better utilisation of the Human Resources Development Fund</p>				 Immediate Priorities

The six immediate priorities are game changers that address the issue of productivity in a holistic manner across the five strategic thrusts.

The six immediate priorities are game changers that address the issue of productivity in a holistic manner, addressing the key challenges across the five strategic thrusts (see Figure 3-5). They will each require strong stakeholder buy-in, ownership and accountability for successful delivery and implementation. These need to be implemented as soon as possible in order to achieve the targetted increase in productivity for the nation.

The rest of this chapter describes the national-level initiatives, key activities, and immediate priorities across the strategic thrusts following the structure presented in Figure 3-5. While a rationale and overall description for each key activity is outlined, a more detailed discussion on the design, implementation and enforcement is provided for the immediate priorities. The fifth thrust, 'Securing a Strong Implementation Mechanism', is described in further detail in Chapter 6 of the Blueprint.

Building Workforce of the Future




It is imperative to bring structural changes to the workforce by increasing the proportion of higher-skilled human capital and reducing reliance on low-skilled and low-wage workers. Towards this end, the Blueprint recommends two national-level initiatives:

- **Initiative N1:** Enforce structural changes to the workforce by formulating a comprehensive labour market policy, including reducing the reliance on low-wage and low-skilled workers
- **Initiative N2:** Conduct national strategic workforce planning in anticipation of changing needs across the sectors

N1 INITIATIVE N1
Enforce structural changes to the workforce by formulating a comprehensive labour market policy, including reducing the reliance on low-wage and low-skilled workers

Initiative N1 focuses on restructuring and improving the management of foreign workers. This initiative is aligned with the third strategic thrust of the Eleventh Malaysia Plan, 2016-2020 (11MP), specifically in Focus area A² to improve labour market efficiency.

The key activities contained within this initiative are as shown below:

- | | |
|----|--|
| N1 | Enforce structural changes to the workforce by formulating a comprehensive labour market policy, including reducing the reliance on low-wage and low-skilled workers |
| 1 | Restructure and improve the management of foreign workers  |
| 2 | Launch a National Wage Index and enhance the Productivity-Linked Wages System |

1 Key Activity 1
 Restructure and improve the management of foreign workers



The 11MP comprehensively outlines strategies to improve the management of foreign workers as well as enhance labour productivity and wages, by shifting to high-skilled jobs. Although Malaysia has set a maximum threshold of 15% for foreign workers across all sectors, efforts to reduce the reliance on low-skilled foreign workers are largely fragmented due to the existence of several implementing agencies, and could benefit from improved coordination.

2. Focus area A: Improving labour market efficiency to accelerate economic growth, under Chapter 5: Accelerating human capital development for an advanced nation.

In restructuring and improving the management of foreign workers, it is recommended that a comprehensive foreign workers policy be formulated and implemented encompassing a structured phased-out plan of foreign workers. This policy should be complemented by the availability of local workers and greater automation in production processes to ensure least disruption to industry.

A single point of authority on all matters related to foreign workers must be established to streamline the development, administration and enforcement of foreign workers policies, and reduce overlaps and inconsistencies.

Foreign worker's levies must be restructured to be based on sector, skill level and proportion of foreign workers in companies. Currently, levies are only tiered by sector:

- **Sector/subsector:** Higher levies for sectors/subsectors with higher labour intensity
- **Skill level:** Highest levies will be imposed for the recruitment of lowest-skilled workers
- **Proportion of foreign workers employed:** Higher levies for companies with a higher proportion of foreign employees

To date, employees bear the burden of levy charges, with little incentive for industries to reduce employment levels of foreign workers. The Blueprint recommends that levies are borne instead by employers. The industry-specific foreign workers plan must be formulated through comprehensive consultation and engagement with the industry. It must have clear timeline and clearly communicated.

2 Key Activity 2

Launch a National Wage Index and enhance the Productivity-Linked Wages System

Establish a National Wage Index by setting wage benchmarks based on skill level in consultation with industry. This Index should be linked to the 40% target share of employees' compensation to the gross domestic product (GDP) as stated in the 11MP. In addition, there is a need to standardise skills certification of varying skill levels to enable easy referencing and comparisons. The Productivity-Linked Wage System (PLWS³) also must be clearly communicated to ensure employers and employees understand the wage impact and required reporting practices.

N2 INITIATIVE N2 Conduct national strategic workforce planning in anticipation of changing needs across the sectors

Initiative N2 focuses on ensuring that stakeholders are aware of the future skills required in their sectors and enable them to plan accordingly. Through national strategic workforce planning, stakeholders including universities, Technical and Vocational Education and Training (TVET) institutions and industry players will have clarity on future skills requirements and address any skills mismatch in the labour market. This initiative supports the 11MP's third strategic thrust, especially for Focus area B⁴ that aims to collectively expand Malaysia's skilled human capital pool and also increase the appeal of careers in various sectors.

The key activities contained within this initiative are:

- | | |
|----|--|
| N2 | Conduct national strategic workforce planning in anticipation of changing needs across the sectors |
| 3 | Accelerate the establishment of the Malaysian Bureau of Labour Statistics to improve labour market statistics and information |
| 4 | Update job openings and employment projections given changing job profiles for key economic sectors |
| 5 | Assess specific human capital requirements of key economic sectors and pro-actively plan for future human capital needs |
| 6 | Ensure focused efforts on up-skilling and re-skilling in industry through better utilisation of the Human Resources Development Fund |

3 Key Activity 3

Accelerate the establishment of the Malaysian Bureau of Labour Statistics to improve labour market statistics and information

Timely and comprehensive labour market statistics is crucial for labour productivity measurement and formulation of labour market policy. Currently, high-frequency labour statistics in Malaysia are mainly collected from household and establishment surveys. They do not incorporate information from administrative records, which can provide timely and better indication of actual

3. PLWS is an effort promoted by MOHR that links the annual increment of salary and variable components of the salary, such as bonuses, to productivity outcomes.

4. Focus area B: Transforming TVET to meet industry demand, under Chapter 5: Accelerating human capital development for an advanced nation.

labour market conditions in the economy. Therefore, the Blueprint recommends accelerating the establishment of a dedicated unit in the Department of Statistics for the compilation of labour market statistics to enhance the quality and availability of key labour statistics in Malaysia to support policy research and monitoring.

4 Key Activity 4

Update job openings and employment projections given changing job profiles for key economic sectors

Educational institutions have expressed concerns that there is insufficient detailed information on the demand for labour, hampering their ability to meet the requirements of the industry. The Blueprint recommends a systematic assessment and sharing of information on job openings and employment projections. This is especially critical given the rapid change in job profiles for key economic sectors, such as services and manufacturing.

5 Key Activity 5

Assess specific human capital requirements of key economic sectors and pro-actively plan for future human capital needs

Presently, there is a low awareness of the impact of technology advancements on job profiles and employment. This will present a challenge for the educational institutions, industries and government in human capital planning. The Blueprint calls for an overall assessment of the specific human capital requirements of key economic sectors to be conducted. This should be initiated

for sectors with the largest shortfall in skilled workers. A proactive plan for future human capital needs is also required given the rapidly evolving industry trends, such as 4th Industry Revolution (I4.0)⁵.

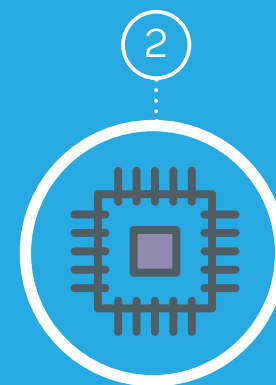
6 Key Activity 6

Ensure focused efforts on up-skilling and re-skilling in industry through better utilisation of the Human Resources Development Fund

Given the fact that fast-paced technology advancements are disrupting operations across many sectors, it is critical for enterprises to prepare continuously for the emerging innovations. They need to be encouraged to up-skill and re-skill their workforce through improved utilisation of the Human Resources Development Fund (HRDF).

5. 4th Industry Revolution is the comprehensive transformation of the whole sphere of industrial production through the merging of digital technology and the internet with conventional industry (source: European Union, 2015).

Driving Digitalisation and Innovation




This thrust centres around boosting technological advantages at the forefront of productivity growth. The key outcomes of this thrust are to increase investments in research and development (R&D), drive greater adoption of technology to improve efficiency and develop an integrated business environment. The two national-level initiatives recommended to achieve these goals are:

- **Initiative N3:** Strengthen readiness, knowledge and adoption of technology by enterprises across sectors
- **Initiative N4:** Strengthen digitalisation among SMEs through e-commerce and adoption of innovative technology

N3 INITIATIVE N3 Strengthen readiness, knowledge and adoption of technology by enterprises across sectors

This initiative has one key activity, which is also an immediate priority for implementation:

N3	Strengthen readiness, knowledge and adoption of technology by enterprises across sectors
7	Actively encourage adoption of 4th Industry Revolution technologies by companies across main economic sectors 

The increased application of technology has been proven to deliver higher quality products. Initiative N3 will raise the overall affordability of adopting technology infrastructure to enable industries to improve their efficiency. This is in line with the fifth strategic thrust in the 11MP of 'Strengthening Infrastructure to Support Economic Expansion'⁶. The initiative ultimately aims to enable Malaysia to become a developed digital economy by 2020 as well as improve its ranking in the World Economic Forum's Global Information Technology.

7 Key Activity 7 Actively encourage adoption of 4th Industry Revolution technologies by companies across main economic sectors

Currently, the path towards the adoption of I4.0 technologies is unclear for most companies. Challenges with human capital and access to I4.0 expertise persist, along with the need for dedicated centres of excellence to provide an immersive experience and drive industry adoption. The larger investment funds, such as the Domestic Investment Strategic Fund (DISF), mostly focus on traditional mechanisation incentives, such as the upgrading of machinery, and are typically sector-specific. The rollout of I4.0 should be prioritised focusing on sectors and industries that will have the highest impact from its application.

6. Focus area C: Improving coverage, quality and affordability of digital infrastructure under Chapter 7: Strengthening infrastructure to support economic expansion.

There is also a need to strengthen innovative practices and partnerships between industry and world-class technical players, beginning with priority subsectors, such as electrical and electronics manufacturing.


Other initiatives to encourage the adoption of I4.0 by companies include providing a dedicated fund to promote the types of technologies and associated benefits of I4.0 to enterprises across sectors. The fund should also focus on developing the human capital required for the successful setup and implementation of I4.0 technologies, via programmes to re-skill and up-skill employees. The alignment of existing financial programmes also has to occur, so that the funds are more accessible to wider and diverse type of enterprises in support of this purpose. Sectoral centres of excellence will be established to undertake R&D for I4.0 to drive industry transformation.


The quality of coverage and affordability of digital infrastructure will be improved to support enterprises to adopt new technologies.

N4 INITIATIVE N4
Strengthen digitalisation among SMEs through e-commerce and adoption of innovative technology

Malaysian SMEs face significant productivity challenges, and generate lower contributions to GDP compared to larger companies. On top of this, they are more reluctant to use ICT tools in daily business activities⁷ or in online business. Hence, this initiative recommends a specific focus on strengthening digitalisation among SMEs. The increased availability of technological infrastructure will increase the ease of mechanisation for enterprises to automate current business models, and potentially enhance their value-adding services.

N4 Strengthen digitalisation among SMEs through e-commerce and adoption of innovative technology

8 Strengthen digitalisation among SMEs through e-commerce and adoption of innovative technology 

8 Key Activity 8
 Strengthen digitalisation among SMEs through e-commerce and adoption of innovative technology 

This activity is an immediate priority to ensure that SMEs are well-supported for digitalisation. Firstly, SMEs need to have seamless movement through the entire innovation process under a single platform and supported by technical assistance, market information as well as incubation and testing facilities. This is in line with High Impact Programme (HIP) 2 in the SME Masterplan. Between May 2014 to December 2016, 21 innovations have already been commercialised as part of the HIP 2 Technology Commercialisation Platform.

The establishment of a single window for both business registration and licensing needs to be expedited, in order to reduce regulatory burden and to facilitate targeted interventions. This is in line with HIP 1 in the SME Masterplan, where the information portal for business registration and licensing is being rolled out in stages. Online services need to be integrated based on the readiness of the systems in registration and licensing bodies⁸.

Promotion and marketing of e-commerce specifically to SMEs will need to be increased, in collaboration with platform providers. Incentives should be streamlined towards ICT-based business solutions, which drive productivity gain. Finally, support for SMEs to pursue international markets should be intensified, through the e-TRADE platform and strategic market alliances.

7. SME survey.

8. SME Corp Malaysia, Progress in the implementation of the SME Masterplan, Feb 2017.

Making Industry Accountable for Productivity



The Blueprint aims to propel Malaysian businesses to be on par with best-in-class countries for productivity practices. To realise this aspiration, it puts forth two cross-cutting initiatives:

- **Initiative N5:** Gradually reduce the reliance on non-critical subsidies, and ensure liberalisation efforts are linked to productivity outcomes
- **Initiative N6:** Realign key grants, incentives, soft loans and other funding mechanisms to productivity metrics and outcomes

N5 INITIATIVE N5
 Gradually reduce the reliance on non-critical subsidies, and ensure liberalisation efforts are linked to productivity outcomes

Over the years, economic liberalisation measures have been announced across various sectors. However, there are still sectors that would benefit from further liberalisation. Core regulations governing key economic sectors must be aligned to liberalisation policies in order to boost productivity and competitiveness. Subsidies which do not suggest productivity improvements must be reduced so that enterprises are less dependent on government assistance. This is in line with the sixth strategic thrust of 'Re-engineering Economic Growth for Greater Prosperity' in the 11MP. By reallocating the financial assistance and subsidies, there will be a visible shift towards a more efficient and independent business ecosystem.

The key activities contained within this initiative are:

- N5** Gradually reduce the reliance on non-critical subsidies⁹, and ensure liberalisation efforts are linked to productivity outcomes
- 9** Undertake necessary revisions to ensure regulations are aligned with liberalisation policies
- 10** Develop a schedule for removal of remaining non-critical subsidies

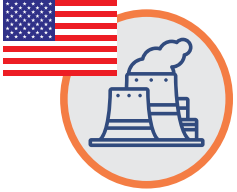


9 Key Activity 9
 Undertake necessary revisions to ensure regulations are aligned with liberalisation policies

There is a need to review regulations governing key sectors that have yet to be aligned to liberalisation efforts, dampen productivity performance across economic sectors. Additionally, local companies are still protected from stronger competition, affecting their productivity performance. Thus, the Blueprint proposes periodical reviews of regulations to ensure they are aligned to liberalisation policies.

⁹ Refers to subsidies which are non-critical in improving productivity, such as price subsidies for cooking oil, rice and highway tolls.

BOX 3-1

Selected Sector Liberalisation Experiences

Country/Industry	 USA, nuclear power	 Australia, airports	 Europe, railways
Approach	<p>48 out of 103 nuclear power plants (NPP) sold to independent utilities</p> <p>Access to power transmission infrastructure not liberalised</p> <p>Tough requirements for NPP operators</p>	<p>13 out of Australia's 19 airports sold to independent operators via competitive bidding rounds</p> <p>Numerous anti-monopoly restrictions</p>	<p>Infrastructure management separated from transport operations</p> <p>Implementation of uniform standards across national railways of different European countries</p> <p>Third-parties given access to infrastructure</p> <p>Introduction of independent regulatory systems</p>
Results	<p>10% business efficiency improvement over 10 years of liberalisation</p> <p>World's biggest number of power producers in one country</p> <p>Highest efficiency metrics</p>	<p>30% business efficiency improvement over 7 years of privatisation</p> <p>Best airports in customer-centric terms</p>	<p>40% business efficiency improvement over 15 years of reforms</p> <p>World's best integrated railway system in length, density, and service quality terms</p>


- 10 Key Activity 10**
Develop a schedule for removal of remaining non-critical subsidies

Currently, there are non-critical and untargetted subsidies, such as input-driven subsidies for agriculture, that directly impact the cost of doing business. These subsidies promote over-reliance on government assistance and perpetuate low productivity levels among enterprises. It is proposed that a schedule for removal of remaining non-critical subsidies to boost productivity be implemented.

- N6 INITIATIVE N6**
Realign key grants, incentives, soft loans and other funding mechanisms to productivity metrics and outcomes

It is proposed that assistance and incentive provided by the government be leveraged to drive productivity. All grants, incentives, soft loans and other of assistance provided by the government must be linked to productivity improvement targets.

The key activities contained within this initiative are:

- | | | |
|-----------|---|---|
| N6 | Realign key grants, incentives, soft loans and other funding mechanisms to productivity metrics and outcomes | |
| 11 | Embed productivity targets for enterprises into disbursement processes of new grants, incentives and soft loans |  |
| 12 | Review existing incentives to reduce/remove non-targetted incentives and align them to programmes with clear targets and outcomes | |

- 11 Key Activity 11**
Embed productivity targets for enterprises into disbursement processes of new grants, incentives and soft loans



Currently, the link between enterprises' productivity performance and the approval and disbursement of any financial assistance is not clear. As a result, government financial assistance programmes have no significant impact on productivity improvements. It is proposed that all assistance provided by the government to enterprise be based on agreed productivity milestones.

It is proposed that the disbursement of incentives be aligned with increase in productivity of recipients, with further funding pending the meeting of key performance milestones.

Additionally, there has been limited tracking and monitoring of recipient performance post-disbursement, which has resulted in insufficient monitoring to ensure funds are channelled towards approved project plans. The current focus is on the repayment of loans, with little emphasis on the actual productivity increase generated. It is recommended that the government embed a self-tracking culture across enterprises by enforcing continuous monitoring of productivity improvements. This initiative would require the scheduled reporting of financial and productivity data from fund recipients, highlighting progress and flagging issues.

12

Key Activity 12

Review existing incentives to reduce/remove non-targetted incentives and align them to programmes with clear targets and outcomes

The Blueprint strongly advocates for a comprehensive review of the existing incentive structure to determine incentives that are not targetted and align incentives to programmes with clear targets and outcomes. This will entail the alignment of promoted industrial activities with sector-level productivity strategies.

The Blueprint also recommends that exit policies be established for all types of incentives.

Forging a Robust Ecosystem



The Blueprint aims to strengthen regulatory governance to improve the competitiveness of enterprises in Malaysia. This would require the implementation of clear and effective regulation across multiple government ministries and agencies across the nation. A robust ecosystem is critical to improve the efficiency, adaptability and accountability of governance systems in supporting enterprises to increase their productivity. This thrust will further strengthen the business environment to improve productivity growth through two national-level initiatives:

- **Initiative N7:** Accelerate efforts to enhance whole-of-government approach towards addressing regulatory constraints
- **Initiative N8:** Establish an accountability mechanism for the implementation of regulatory reviews by the government

N7 INITIATIVE N7 Accelerate efforts to enhance whole-of-government approach towards addressing regulatory constraints

Initiative N7 aims to strengthen the development and utilisation of Good Regulatory Practices (GRP) across government agencies. This will help increase investments and foster inclusive growth, societal well-being and public trust. The initiative also proposes continuous review of prohibitive regulations to promote a business-friendly regulatory environment and accommodate technological and innovative disruptions.

Initiative N7 is aligned with the 11MP's aspiration to 'Transform Public Service for Productivity'¹⁰. Further streamlining and refining of regulations to ensure consistency across federal and state governments will greatly reduce the complexity of setting up and running businesses in Malaysia. This initiative is also aligned to the 'Modernising Business Regulations' programme taken by the Malaysia Productivity Corporation (MPC) and the Special Task Force on Service Delivery (PEMUDAH), which aims to improve the quality of existing regulations.

The activity contained within this initiative is:

N7 Accelerate efforts to enhance whole-of-government approach towards addressing regulatory constraints

13 Remove non-tariff measures that impede business growth and improve efficiency of the logistics sector



13

Key Activity 13

Remove non-tariff measures that impede business growth and improve efficiency of the logistics sector



Currently, there is a lack of consistency in export and import licensing, permit and approval processes. Most large Multinational Corporations (MNCs) have identified the different processes and systems as a key barrier impeding productivity growth. Malaysia's Logistics Performance Index has declined from 25th position in 2015 to 32nd globally in 2016. The Blueprint recommends the restructuring of non-tariff measures, including customs regulations, to ensure streamlined processes and regulations for export and import permits and regulations.

The existing custom processes require high levels of manual input, with gate releases still requiring a hardcopy of declaration, despite prior receipt of online approval. The delivery of the uCustoms platform has been delayed. The key challenges faced in the uCustoms implementation have been the lack of alignment on regulations and processes to be streamlined across ministries, and initial IT specifications not meeting the requirements. The Blueprint recommends the accelerated implementation of uCustoms to improve logistics and trade facilitation. Alignment with key ministries and agencies has to be obtained for export and import licensing, permit and approvals. Better project management and a reporting mechanism are necessary to ensure the uCustoms is on track for launch and rollout.

The guillotine approach requires each ministry to list business regulations within their purview, and highlight regulations that are no longer relevant or justified. Over time, these obsolete regulations would then be rescinded. However, at present, this approach only applies to the 'Modernising Business Licensing' programme, with potentially limited gains in reform. The Blueprint recommends expanding the guillotine approach for all areas and sectors and fixing a schedule for its implementation, based on the relative importance. A review of all business regulations is also necessary, specifically focusing on cross-agency and cross-ministerial regulations.

Channels of communication between industry disruptors, such as Grab and Uber, and government regulators should be further structured, with a need for increased consultation to review the applicability of new and existing policies. The Blueprint proposes to establish and institutionalise an innovative engagement mechanism to promote greater and structured private sector involvement in policy-making, which complements ongoing efforts.

BOX 3-2

THE GUILLOTINE APPROACH USED WIDELY AROUND THE WORLD TO RAPIDLY STREAMLINE REGULATIONS

A top-down approach for regulatory review

Government to rapidly and systematically review large numbers of regulations at low administrative and political cost

- Licences that do not meet legislative justification are abolished
- Requirements that are not business friendly are simplified

Guillotine avoids reform weaknesses of traditional bottom-up approach

- No selection bias
- Burden of proof is reversed in favour of reform
- Review is fast and final decision is taken collectively, without need for individual decisions

An example process of guillotine approach

Stock take of all regulations or formalities affecting businesses by the government

Each rule or formality is reviewed three times by;

- Civil servants
- Business stakeholders
- The central guillotine unit¹

After review, each rule or formality is placed into one of three categories: maintain, simplify or eliminate

The Council of Ministers and Parliament, by an omnibus process, eliminate unneeded regulations and simplify regulations that are too complex

Successful implementation observed across the world



Mexico used the guillotine in the 1990s to eliminate 47% of government formalities and create its famous Federal Registry of Formalities and Services

As part of its economic recovery after the financial crisis of 1997, **South Korea** used the guillotine to review 11,000 business regulations and eliminate 50% of them in less than a year



In **China**, before its accession to WTO, it eliminated over 8,000 regulations that were not compatible with WTO rules

Moldova adopted the regulatory guillotine by law in January 2005 to review over 1,000 regulations; eliminated 45% of them and simplified 13% in 4 months



1. Examples include Comisión Federal de Mejora Regulatoria (COFEMER), Mexico and Presidential Commission on Regulatory Reform (South Korea).

BOX 3-3

GOVERNMENT-FUNDED LABS ESTABLISHED AS A PLATFORM TO DRIVE USER ENGAGEMENT AND INNOVATE PUBLIC POLICIES



<p>Description</p>	<ul style="list-style-type: none"> • Cross-governmental innovation unit, which involves citizens and businesses in developing new solutions for the public sector • Supports government in 3 ways: <ul style="list-style-type: none"> - “Laboratory”: Experimental and user participatory approaches through partnerships and workshops - “Think Tank”: Conduct research and analysis for government - “Inspirator”: Seminars, courses, presentations, training and development 	<ul style="list-style-type: none"> • Think tank in the federal practice that focuses on innovation in the public sector • Fellows conduct research into key issues and emerging ideas shaping the public, private and non-profit sectors
<p>Areas of focus</p>	<ul style="list-style-type: none"> • Service design, customer insight, user experience, innovation 	<ul style="list-style-type: none"> • Regulation, innovation, welfare, social media
<p>Select programmes</p>	<ul style="list-style-type: none"> • Innovation Lab 	<ul style="list-style-type: none"> • Centre for Federation Innovation
<p>Location</p>	<ul style="list-style-type: none"> • Copenhagen, Denmark 	<ul style="list-style-type: none"> • London, United Kingdom

N8 INITIATIVE N8 Establish an accountability mechanism for the implementation of regulatory reviews by the government

Presently, a lack of coordination and accountable implementation is hampering governance reforms. Malaysia's Regulatory Quality Index lags behind benchmark countries, despite systematic regulatory reform effort. Initiative N8 aims to implement an integrated governance reform to modernise regulatory regimes and drive productivity improvements through the effective enforcement of regulations and policies.

The key activities contained within this initiative are:

N8	Establish an accountability mechanism for the implementation of regulatory reviews by the government
14	Strengthen the regulatory portal and mechanism to track regulatory review implementation
15	Establish state-level benchmarking indicators for businesses

14 Key Activity 14 Strengthen the regulatory portal and mechanism to track regulatory review implementation

The MPC is tasked to bring changes to the regulatory environment in government, culminating with the introduction of the National Policy on the Development and Implementation of Regulations

(NPDIR). The portal for Regulatory Review Management System has been set up to track the implementation of the regulatory reviews.

To improve the implementation of regulatory reviews, the Blueprint seeks to strengthen the mechanism to track the progress of the NPDIR by among others, setting clear milestones and KPIs. This portal will also provide an easy access to the complete set of regulations governing industries at state and local levels, especially updates on regulatory changes that can be shared swiftly across sectors.

15 Key Activity 15 Establish state-level benchmarking indicators for businesses

There are also concerns over the limited visibility of the regulatory burden across states and local governments. The World Bank's Ease of Doing Business data for Malaysia is limited to Kuala Lumpur, clearly illustrating the information gap between regions. The Blueprint recommends establishing a set of state-level benchmarking indicators to measure the Ease of Doing Business, through collaboration with state governments.

BOX 3-4

MEXICO PUBLISHED COMPARATIVE DATA ON THE EASE OF DOING BUSINESS ACROSS STATES

Background and Context

Ease of Doing Business indicators did not reflect reality beyond Mexico City

- Limited visibility on reality in 31 states and 100 million people

In 2005, Comisión Federal de Mejora Regulatoria (COFEMER) collaborated with The United States Agency for International Development (USAID) to develop sub-national benchmarks

- 12 states as benchmarks identified
- 4 indicators selected- starting a business, registering property, getting credit, and enforcing contracts

Findings launched at national conference in Mexico City

- Specific reform initiatives and good practices shared at two nationwide conferences

Key outcomes

Findings received wide media coverage

Wide range of reform initiatives spurred across the country, including

- Various Public-private taskforces established at state level
- Non-participating state governments lobbied to be benchmarked

Significant progress observed, in just over one year

- 9 of 12 states reformed in at least one area covered in report

Lessons learned

Bringing a global benchmark to the local level empowers reformers

- Improved visibility on measure of competitiveness

Sharing easily replicated best practices creates positive dynamic of reform

- Excuses for differences in state-level performance eliminated, with shared federal laws

Strong local partners and local ownership from benchmarked states

- Opens dialogue between federal and state government
- Involvement at state level

Avoiding the traps of political partisanship

- Political alignment on improving investment climate

Securing a Strong Implementation Mechanism



This thrust will embed the culture of productivity in a nationwide movement, and will drive accountability in productivity performance through two key initiatives:

- **Initiative N9:** Institutionalise a strong coordination and governance model to secure implementation certainty across government, sector, and enterprise levels
- **Initiative N10:** Launch nationwide productivity movement to inculcate a stronger culture of productivity across all segments of society



The key objective of this thrust is to build a shared sense of responsibility amongst all stakeholders to improve Malaysia's productivity levels, ensuring a strong implementation mechanism to deliver and achieve the Blueprint's targets.

Uncoordinated efforts among multiple government entities and limited involvement from the private sector in driving productivity initiatives are the key challenges hindering the implementation of productivity efforts.

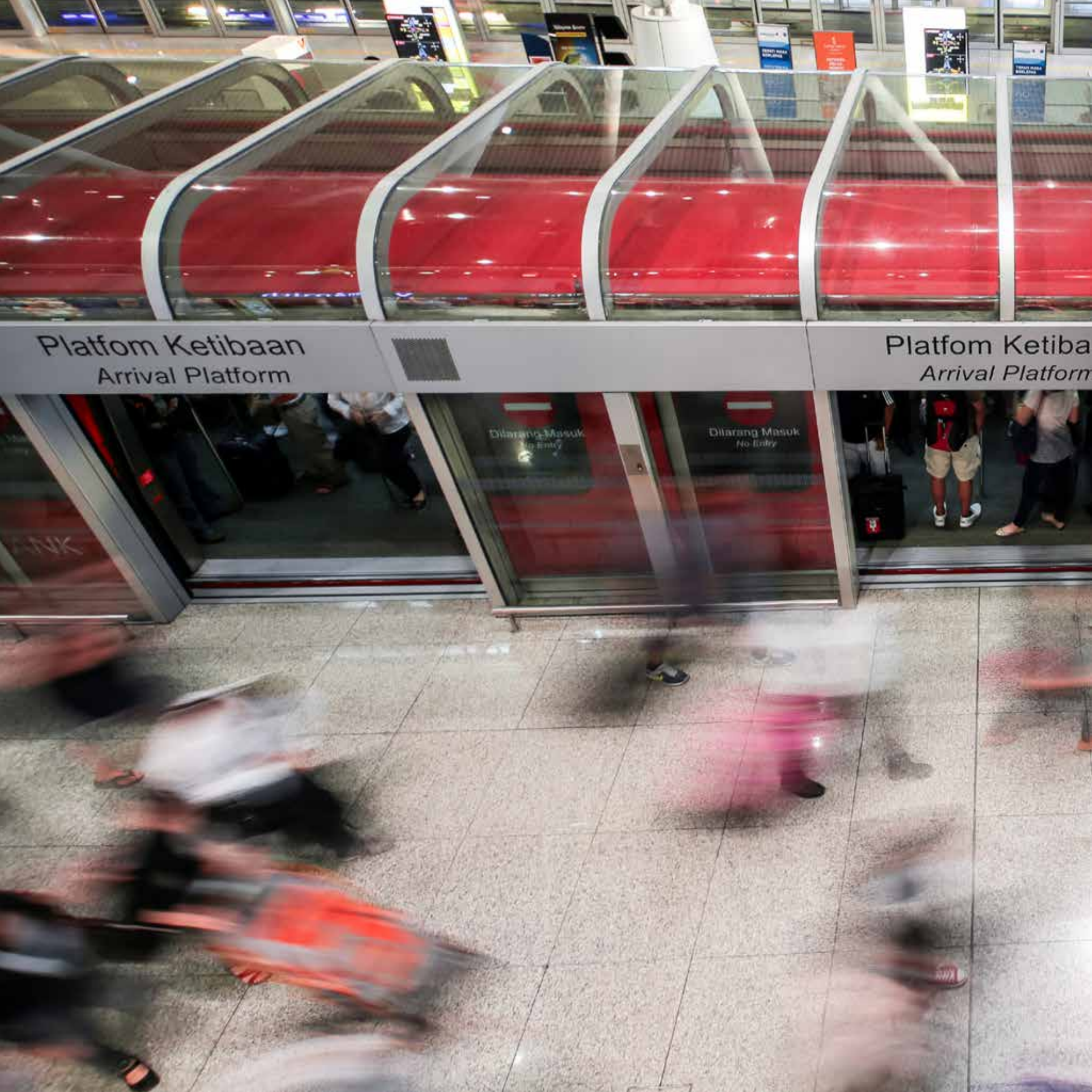
In addressing these challenges, a governance model encompassing strategic oversight, advisory, coordination and monitoring as well as implementation has been developed (see Chapter 6).

The implementation of the six immediate priorities has the potential to uplift labour productivity growth between one and four percentage points, conditional upon their full implementation with accountability and ownership. The growth estimate is based on the experience of the benchmark countries that have embarked on similar initiatives (see Figure 3-6).

Figure 3-6 PRODUCTIVITY IMPROVEMENTS IN BENCHMARK COUNTRIES

MALAYSIA PRODUCTIVITY BLUEPRINT		UPLIFT IN NATIONAL PRODUCTIVITY BY COUNTRY BENCHMARKS				
Strategic Thrusts	Immediate Priorities	 Japan	 Germany	 Singapore	 Australia	 Finland
BUILDING WORKFORCE OF THE FUTURE	Restructure and improve the management of foreign workers		Reforms in the hiring of seasonal foreign workers (e.g., employers to submit proof that locals could not be hired)	Different quota, levies and restrictions are used to restrict foreign labour entry	Establish a workforce agency to advise government on workforce development needs	Provide training for migrants on ICT and vocational skills
DRIVING DIGITALISATION AND INNOVATION	Actively encourage adoption of 4th Industry Revolution technologies by companies across main economic sectors Strengthen digitalisation among SMEs through e-commerce and adoption of innovative technology	Launched a 5-year initiative to deepen the use of robotics in all sectors	4th Industry Revolution reduced manufacturing cost approximately 5%-8%, while retail and F&B by 9%-12%	Established Centre of Innovation to help SMEs enhance technology innovation capabilities		
MAKING INDUSTRY ACCOUNTABLE FOR PRODUCTIVITY	Embed productivity targets for enterprises into disbursement processes of new grants, incentives and soft loans	Japan Productivity Centre (JPC) tracked productivity performance of sectors and linked it to initiatives		Construction Productivity and Capability Fund aligned incentives to productivity strategies		
FORGING A ROBUST ECOSYSTEM	Remove non-tariff measures that impede business growth and improve the efficiency of the logistics sector	Established special zone with regulatory exception to speed up nationwide reform	Comprehensive regulatory reform bundle (e.g., Hartz Labour and pension reform)		Reducing red tape to ease burden on businesses	Reduction in product regulatory constraints have increased productivity
SECURING A STRONG IMPLEMENTATION MECHANISM	Evolve governance model to drive game changing implementation of Malaysia Productivity Blueprint	Established JPC, a non-profit non-governmental organisation, dedicated to promote productivity		Established National Productivity Council, which include representatives from government, businesses and unions	Established an independent Australian Productivity Commission under the Treasury that conducts research related to productivity for the whole economy	
NET GAIN IN LABOUR PRODUCTIVITY¹		1.5%-1.7%	3.0%-3.5%	2.0%-4.0%	1.7%-1.9%	1.0%-1.5%

1. Net gain in the labour productivity is the difference in CAGR during the time period before the initiatives were launched to after initiatives were completed.



Platform Ketibaan
Arrival Platform

Platform Ketibaan
Arrival Platform

Dilarang Masuk
No Entry

Dilarang Masuk
No Entry

INX



PRODUCTIVITY HELPS YOU STAY RELEVANT IN A FAST CHANGING JOB MARKET

Employers value employees who innovate and seek ways to do things more efficiently and effectively

